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**Neil Woodford**
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# On the offensive

Pensions minister blames providers for low take-up of Pension Wise



# Editor's view

NATALIE HOLT

## Coming out with all guns blazing

Often when you hear politicians speaking in public, whether to journalists or from the podium, they do not want to stand out from the crowd too much. The dialogue is predominantly made up of anodyne statements where said MP refuses to deviate from the party line and that are designed to placate the naysayers, and try not to upset anyone else in the process.

After a six-month hiatus, pensions minister Ros Altmann appears to have adopted a different tactic. In fact, she has come out all guns blazing.

In an in-depth and frank interview with *Money Marketing* this week, Altmann pulls no punches in attacking providers over their failure to appropriately signpost their customers to the Pension Wise guidance service. Altmann goes even further by airing a sneaky suspicion that providers are diverting savers to their in-house products and services. For advisers that have long been accustomed to unwieldy wake-up packs and provider attempts to poach clients, this school of thinking will not come as a surprise.

This fiery approach is more akin to Altmann's consumer champion stance that the industry was used to before she took up office as pensions minister.

Until now, Altmann has kept a surprisingly low profile. She was noticeably absent at the Conservative Party Conference earlier this year, although this was attributed to the clash with Jewish holidays. Yet conference absence notwithstanding, for the first six months after the election Altmann has managed to avert the gaze of the media and the industry,

a position all the more unexpected given her previous public persona.

Perhaps the pensions minister is keen to rebuff any suggestions that she has been muted by the machinery of Whitehall, or that she has somehow been relegated to a Treasury puppet.

But her outburst also comes at a time when the Pension Wise service designed to underpin pension freedoms has come under sustained attack, not least in these very pages. From the "rogue" Citizens Advice branch that redeployed staff to non-Pension

**Perhaps Altmann has realised it would be better to come out from below the parapet and start calling out providers**

Wise work, to the news last week that one guidance employee had been sacked after he challenged how staff were being used.

Perhaps Altmann has realised it would be better to come out from below the parapet and start calling out providers on their failure to signpost a £39.1m service. The success of Pension Wise, and the wider pension freedom reforms, are currently at stake.

There seems no better time to emerge from the shadows.

**Natalie Holt is editor of Money Marketing. Follow her on Twitter: @Natalie_Holt_MM**


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# ‘Providers need to step up to the plate’

## Pensions minister accuses providers of diverting customers away from Pension Wise service

SAM BRODBECK

Pensions minister Ros Altmann has launched a scathing attack on providers’ behaviour post-pension freedoms, accusing them of being to blame for the low take-up of Pension Wise.

It is six months since the Conservatives secured a majority against the odds and Altmann took up the mantle of pensions minister.

Since then, data has begun to emerge about how savers are dealing with the freedom and choice reforms. The Government’s guidance service has had an underwhelming launch and politicians have been criticised for overpromising on the new state pension.

In an outspoken interview with *Money Marketing*, Altmann gives her view on why pensioners will not run out of cash, and accuses providers of diverting customers to in-house services.

### Laying the blame

Launched alongside the pension reforms, Pension Wise was meant to be the brake that stopped consumers making rash decisions with their newfound freedom.

But seven months on, low take-up of the free 45-minute appointments and the controversial redeployment of staff, as revealed by *Money Marketing* over recent weeks, has dented the guidance service.

Only around one in 10 people who have accessed their pots since April took up the offer of an appointment.

Altmann admits take-up has been muted, but she says providers are to blame for not living up to the spirit of the rules on signposting to guidance.

She says: “Providers need to step up to the plate and do better. I’ve seen wake-up letters, including from companies that I previously considered to be very good ones, and I’ve struggled to find the Pension Wise name and phone number.

“In one case I saw a three-page letter that says ‘this is the value of your pension fund, now you need to decide what to do’. It says ‘giving this letter does not constitute financial advice but you can call our helpline to talk to somebody’.

“The implication is clearly the letter isn’t financial advice but if you call up the provider’s helpline it is – it’s the way it’s phrased. Once you’ve read through the letter you’ve had the provider’s number six times. The Pension Wise number is at the end but you already think by phoning the people at the nice company you’ve had your advice, so why would you go somewhere else?

“I’m concerned the providers are driving too many people to their own in-house services.”

> **I’m concerned the providers are driving too many people to their own in-house services**

Last month, *Money Marketing* revealed a Pension Wise guider was sacked by Citizens Advice following a row over staff being used for non-pensions work.

Advisers reacted angrily to the revelation Pension Wise funding was being used on other activity. The service is funded by a £39.1m levy, with advisers set to contribute £4.7m in 2015/16. MPs have also called for information on other areas, such as mortgages, to be included in guidance sessions.

But Altmann believes the service should be restricted to pensions.

“I’m really pleased we’ve reduced the age down to 50. It’s not ideal if the first time people think about it is 55. But I only want Pension Wise to expand within pensions.”

She adds: “It’s in advisers’ interests to boost the take-up of Pension Wise, it’s an ideal opportunity to help people understand why they might want to seek advice.

“If we didn’t have Pension Wise, then advisers would be much worse off. Everyone would just go to their provider and we know what providers are like.”

### No ‘nanny state’

Altmann bats away growing concern that pension freedoms are leaving savers dangerously exposed.

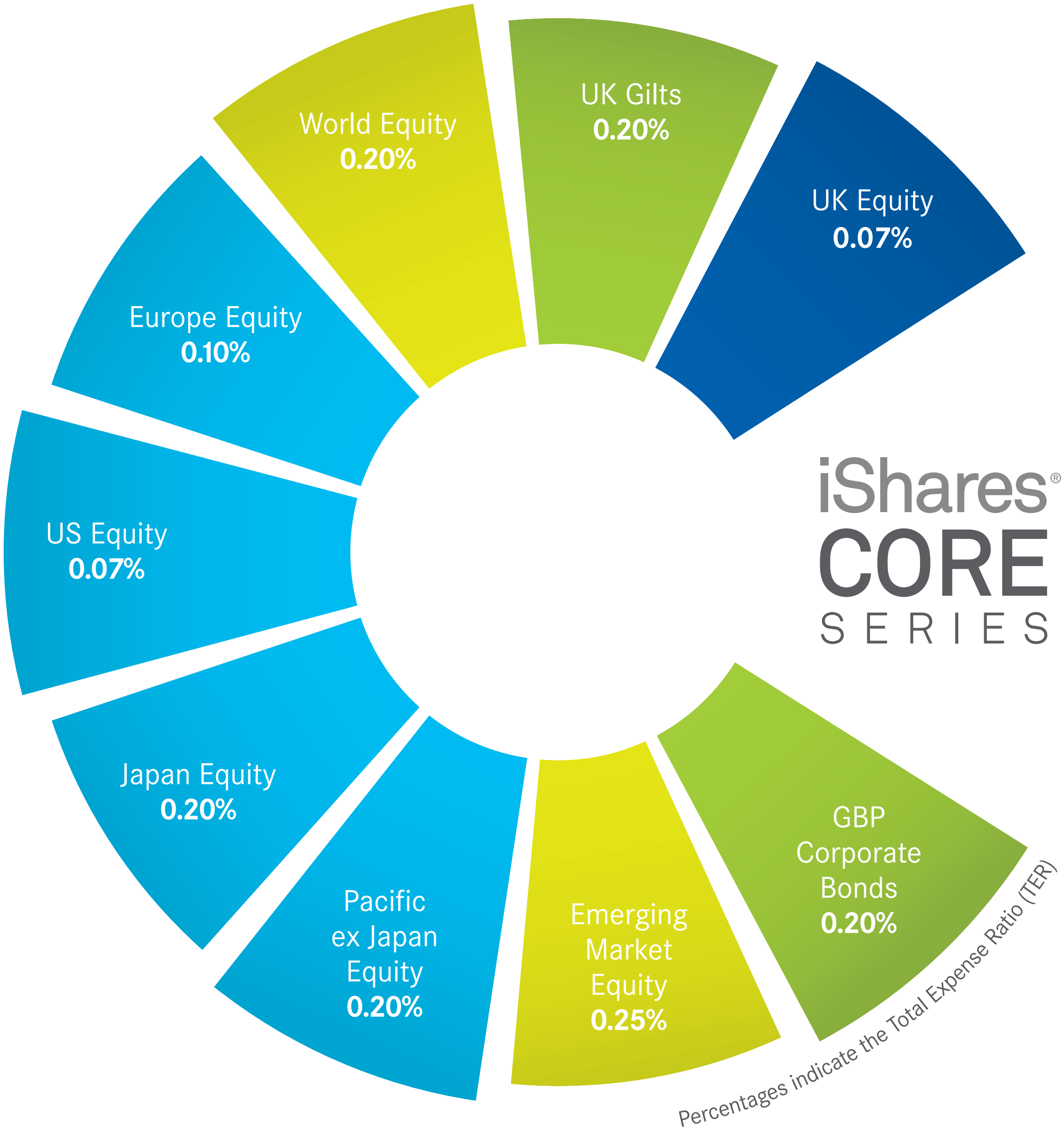
Last week, a report from the Social Market Foundation called for an “early warning system” so the Government could intervene if pensioners begin running out of cash.

The report shows 40 per cent of Australians, who have never had a developed annuities market, consume their entire pension pot by the age of 75. The Australian government is currently debating introducing a form of compulsory annuitisation.

But Altmann says the lessons learned in the Australian market do not apply to the UK.

“I certainly don’t think the evidence so far suggests we need to worry about people running out of money. I’m talking with the industry and they are saying their customers are being pretty responsible overall.

“We saw in the first few months there was this rush for people to cash out mainly small pots. Many of those people had other pensions, and they’ve been planning to do that for the last year.

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"I've met with people from Australia who have been involved with the pension system for quite some time. Their system is very different from ours. Their state pension is means-tested and a lot of people, because of compulsory pension savings, use their pension savings to pay off their mortgage when they retire."

She adds: "It's not valid to read across to what's happening over there and say that means that people will do the same here. Indeed, it's quite surprising that only 40 per cent in that environment have used all the money."

### Pressure point

The Government has also come under pressure for not producing detailed enough information on how savers are using their pensions since April.

She says: "It's very difficult to know all the information at this stage, but we will get it through in the first few years – so we'll know what people's pension wealth is and what they are cashing in.

"But, as you'd hope, British people are being quite sensible on the whole. There will always be people who blow the lot in one go, but as long as that's the minority that's the whole purpose of the reforms. It shouldn't be up to Government to tell you what to do with your money."

One of the most striking trends since April has been the rise of non-advised drawdown. Standard Life has previously told *Money Marketing* non-advised drawdown was its "fastest-selling solution ever".

Before she took office, Altmann campaigned for years to boost the number of customers who shopped around for the best value annuity, rather than rolling over with their existing provider.

Last week, the FCA warned it might have to intervene if it found evidence consumers are struggling to compare drawdown and simply defaulting to their provider's product.

But Altmann does not think history is repeating itself.

She says: "Where I was so exercised before was if you bought the wrong type of annuity you were stuck with it for life. If you buy the wrong drawdown product you can move it – it's not the same. There was a specific issue about annuities and the fact Government was forcing most people to buy without proper risk warnings and explanations.

"With a drawdown product your money is still in pensions and if you've made a mistake you can change it.

"With the old system, unless you had a very small or large pot, you were forced to buy a one-off deal with no explanation for you at all. It's right we got rid of that."

Almost as soon as Altmann took office she came under pressure to address widespread misunderstanding about the new state pension.

The pensions industry had always known millions would not receive

**British people are being quite sensible on the whole. There will always be people who blow the lot in one go**

the full amount – expected to be around £150 a week – when the system goes live next April.

But savers have instead been on the receiving end of the coalition government's marketing campaign promising a flat amount, without realising they are likely to receive less.

According to a Freedom of Information request submitted by Hargreaves Lansdown earlier this year, only 45 per cent will get the full amount in the first five years following the changes.

So does Altmann hold her predecessor Steve Webb responsible?

She says: "We've had to correct some of the misinformation we've got now. It's easier to explain something right in the first place than to correct something that hasn't been explained right."

A campaign run by women born in the 1950s and affected by transitional arrangements has also been gathering pace in recent weeks.

Altmann says: "There has been so much misinformation, people are running around saying it's 'so complicated; we were told it would be simple, told it would be flat rate and it's been missold'.

"Actually it will be simple, and it will be flat rate – the complexity is about the past system that we need to calculate and crystallise into one figure from April 2016.

"From the end of 2016, because it will take a few months to have everyone's National Insurance records, everyone will know their starting amount and from then on they will be building up a flat-rate amount each year regardless of their earnings, what type of NI contributions they make, or what type of NI credit they have.

"We're also working on digital statements so through 2016 more people will be able to check their state pension online. We want everyone to be able to know what they are starting off with and give them a projection forward if they work five or 10 years longer."

Alongside the delivery of the state pension, the extension of auto-enrolment to ever-smaller firms is a key responsibility for the minister.

In response to this new auto-enrolment phase, the Government launched a new advertising campaign based on 'Workie', the workplace pensions monster, that employers are warned not to ignore.

"With Workie, the idea was we had the really successful 'I'm in' campaign but the audience it was addressing was the workers, asking them to stay in, because their firms were doing auto-enrolment anyway and probably already promoting pensions.

"We spent £8m a year for the last three years on that. But we needed to move on and recognise that we have to speak to employers now. Yes we want members to stay in, but I'm most exercised about helping those small employers who may not even realise they have duties, so they at least recognise that it's the law and they have to comply."

### Twin priorities

It is the twin priorities of the state pension and auto-enrolment as well as potential tax relief reform that have put other changes on the backburner, Altmann explains.

In September, *Money Marketing* revealed the Department for Work and Pensions was to delay its plans for the pot-follows-member model of automatic pension transfers.

Steve Webb's pet project of defined ambition – a framework for schemes that share risk more evenly between members and employers – has also now been shelved.

"We know tax relief reform is being looked at, but we don't know exactly what will happen. Whatever changes are made it will be another thing for the industry to cope with. It's another reason for saying let's hold off on big, and even smaller, reforms that aren't really important now.

"My impression is we won't look at pot follows member or defined ambition before 2018. It's sensible to wait until auto-enrolment is fully rolled out. We all know the contributions are low. When we reach the minimum we hope people will do more but my plea is for the industry to understand there's only so much Government can do.

"We're handing them these customers, they are there for the taking. Opt-out rates have been incredibly low – especially among the young – with around 90 per cent saying they want to stay in.

"The industry has a chance to engage them and then if they have done a good job people will stay in and save more. If we increased the minimum contribution, if people are not happy with their experience they'll just opt out. The industry must now step up and take the chance to get their customers to do more with their pensions."

**THE INDUSTRY RESPONDS**

## Providers hit back at minister's claims around Pension Wise

Providers are refuting claims by the pensions minister that they are directing customers away from Pension Wise.

Ros Altmann says she is concerned providers are "driving too many people to their own in-house services".

But Association of British Insurers director, long-term savings policy Dr Yvonne Braun says: "Providers remain committed to signposting customers to Pension Wise. The low initial take-up of the service reflects the fact that it needs much more promotion. It was not helped that it was launched in the run-up to the general election. Even though crucial details, such as how the guidance sessions would work and the telephone number had not been agreed six weeks prior to its launch, providers had already agreed a standardised communication for promoting the service. What is now important is Government and providers work together to ensure people make maximum use of the service."

But a senior source at a major provider says: "There are a number of companies, crucially those that distribute through advisers, that have made it central to their strategy to retain customers and were quite blatant about it when Pension Wise was coming together. I was quite surprised at how upfront they were."


# Piling in

## Advisers need to evolve their business models as investors switch to cash and property

TESSA NORMAN

Advisers are being urged to review their business models following new evidence that investors are moving away from traditional assets and piling into property and cash.

Data compiled by EY shows that cash deposits saw a 17 per cent compound annual growth rate in new business flows between 2010 and 2014. In 2010, new business flows were £45.2bn, which climbed to £84.6bn by 2014.

Investment real estate saw a compound annual growth rate of 12 per cent over the same period, with new business flows rising from £36.9bn in 2010 to £51.8bn in 2014.

New business flows of traditional IFA products have fallen over the same period, however.

Stocks and shares Isas saw a compound annual growth rate of -9 per cent, with new business declining from £27.4bn in 2010 to £19bn last year. Bonds fell from £16.2bn in 2010 to £7.3bn in 2014, a compound annual growth rate of -18 per cent

EY says this situation poses major challenges for advisers and life and pensions providers.

EY partner and head of financial services strategy Penney Frohling says: "The majority of consumers are increasingly opting out of the investment sector. That means the long-term saving industry is unable to advise on the majority of a given consumer's portfolio."

Threesixty managing director Phil Young says the tougher limits on pensions tax relief are pushing IFA clients away from pensions towards alternative assets.

He says: "Peer-to-peer lending is creeping up the agenda for a lot of people as an alternative to cash.

"Advisers will at least need to start having an opinion on investments such as peer-to-peer lending that have historically been outside of financial services, because their clients are going to ask them about it."

**Advisers will at least need to start having an opinion on investments such as peer-to-peer lending**

### Adapt to demand

The Consulting Consortium director of advisory services Colin Wilcox says advisers should be well placed to adapt to changing demand.

He says: "People are moving towards 'more cautious' asset classes but do they understand the risks and benefits of their choices?

"It shouldn't be difficult for the market to adjust and develop products with a greater exposure to cash and property if demand is there.

"Risks remain for consumers regardless of the asset class selected. They need to appreciate the long-term prospects for different asset classes and all the risks that arise, and advisers are well placed to provide that support."

Page Russell director Tim Page says the shift in investing patterns has prompted his firm to adopt a ▶


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## ADVISERS

financial planning model. He says: "About five years ago we spotted that increasingly clients were asking the question: 'Should I keep my money invested or go for buy-to-let?'

"Wrappable assets are shrinking as a proportion of savings and the answer is to provide a financial planning service for a fee rather than charge as a percentage of assets under management.

"If you are only remunerated by advising on certain assets, then clearly you will become increasingly conflicted when clients are looking at other areas such as property. A lot of advisers haven't woken up to this yet, but it will be a bigger influence in a shift towards fixed fees than any regulatory change."

But Hargreaves Lansdown senior analyst Laith Khalaf argues traditional investments remain popular.

He says: "Commercial property has seen very strong inflows over the last couple of years, but so have equity income funds. Both are indicative of investors looking for yield in the low interest rate environment.

"The EY data only gives a snapshot comparison of 2010 and 2014, and the latter was not a great year for stocks and shares Isas for a number of reasons. For example, more people were being auto-enrolled into a workplace pension which may have diverted some money.

"If you take a step back and look at Isas as a whole, they have been extremely successful."

But Khalaf adds the increase in cash holdings shown in the data suggests consumers are underinvested.

He says: "There are certainly opportunities in the cash space and we may see more retail cash offerings through advisers and platforms."

### Pension freedoms

The move to property and cash may be exacerbated by Chancellor George Osborne's pension freedom reforms, which came into force in April.

Ahead of the freedoms being implemented, fears were rife that retirees would take money out of pensions and put it in the assets they understand best: cash and property.

Council of Mortgage Lenders data shows an increase in gross buy-to-let lending for house purchase since June. Between January and May, monthly lending for purchase ranged from £1bn to £1.2bn, with year-on-year increases of between 11 and 33 per cent.

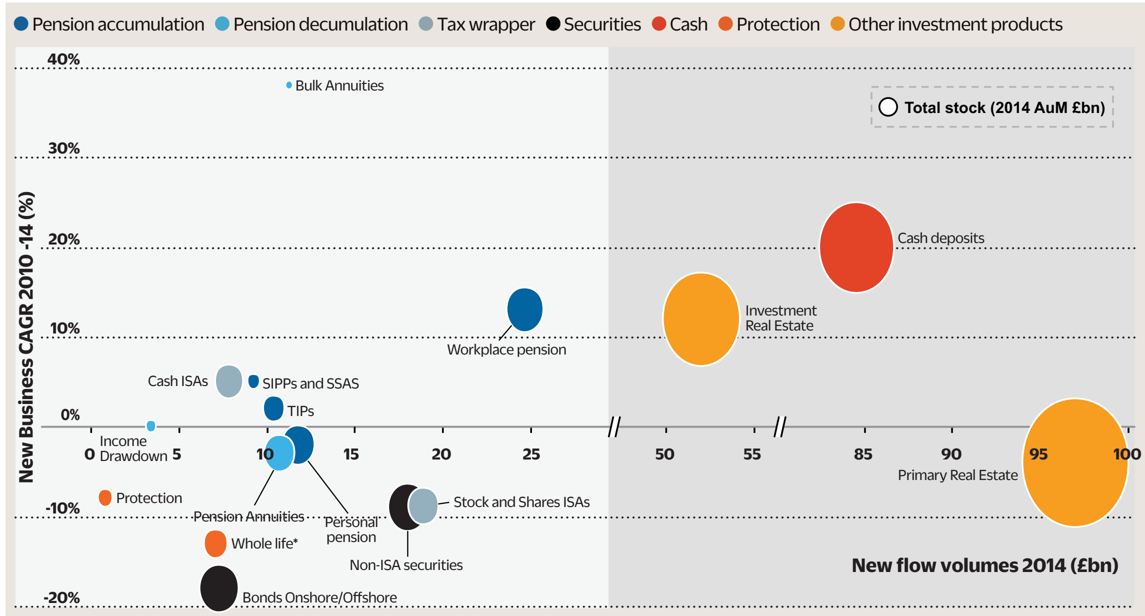
In June, monthly lending rose to £1.4bn, a 40 per cent year-on-year increase. And in July lending was £1.6bn, up 33 per cent year-on-year. Lending totalled £1.4bn in August, the last month for which data is available, which is up 40 per cent year-on-year.

The CML says year-on-year growth in buy-to-let lending was strong before the freedoms came in but has increased further since June.

However, a spokesman said it is too early to draw a link between higher lending and the pension freedoms.

Page says: "Property is the only share class that baby boomers have seen do well for them in their adult lives, so buy-to-let makes sense to them and it is hard to argue with that experience."

**UK LONG-TERM SAVINGS MARKET ASSET CLASSES, 2010-14**




SOURCE: EY

> **A lot of clients will have a buy-to-let property in their portfolio and advisers will need to think about how they deal with it**

Specialist broker The Buy to Let Business managing director Ying Tan says: "The pension freedoms will have had an impact, but the main reason volumes have increased this year is because the economics of demand and supply remain very strong."

Young says advisers need a strategy for buy-to-let.

He adds: "It is not necessarily a good idea for advisers to start advising on it, but a lot of clients will have a buy-to-let property in their portfolio and advisers need to think about how they deal with it.

"Are you going to advise on it, do you include it in reporting, and do you take it into consideration for asset allocation? Do you charge for that, and if so how much, given that you're not advising on it?"

## EXPERT VIEW

**PENNEY FROHLING**

## The rules have all changed

The long-term savings industry has been altered in recent years as sweeping change has come in with the RDR and the pensions freedoms.

The constant stream of regulation continues to profoundly change the rules of the game for life and pensions providers, and the advantage they once enjoyed has to some extent been diluted, with others such as asset managers entering the space.

Capital requirements under Solvency II are also challenging the viability of most of the guaranteed products in the market. The result is many traditional revenue pools are not as lucrative as they once were, or even viable. Non-capital intensive products (such as mutual funds and exchange traded funds) are attracting the majority of new business flows, but have increasingly lower margins.

Conversely, traditional life and pensions products with higher margins have not grown fast enough over the last four years, with the exception of workplace pensions.

To add to the challenge, customers are choosing to keep more of their assets in cash or invest in property rather than saving through more traditional financial vehicles.

At least 50 per cent of UK households' investment assets are allocated to these asset classes.

The bottom line: many consumers are increasingly opting out of the investment sector. This is occurring at a time when most life and pensions players, banks, and advisers are investing an increasing amount of scarce resources into new platforms or IT infrastructure.

The current environment poses very serious questions around their ability to make any meaningful returns on these investments. The winners in this environment will be those players who shift rapidly from the legacy product-led culture to a relentlessly customer-led approach driven by deep insight and analysis into customer needs.

*Penney Frohling is partner and head of financial services strategy at EY*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PENSIONS

## Treasury in industry talks to progress cash for annuities

Providers are in talks with the Treasury over how to advance plans for a secondary annuities market.

The reforms, which will allow people to cash in their annuity, were due to be implemented in 2016. However, in the July Budget the deadline was pushed back to 2017 amid concerns about the impact of rushing the reforms onto savers.

*Money Marketing* understands an option under consideration is for the Association of British Insurers to develop a portal that would connect potential buyers and sellers of annuities and facilitate transactions. The aim is to protect consumers from unscrupulous firms looking to capitalise on the market.

Another option is for deals to be facilitated through brokers.

Hargreaves Lansdown head of pensions research Tom McPhail says: "There is a general consensus that there needs to be some form of intermediary acting between potential buyers and sellers. Whether that is a central portal, a Government-approved body similar to Nest or brokers like those in the individual annuity market is still up for grabs.

"The most logical outcome would be an open market facilitated by brokers, who would be subject to FCA checks."

Just Retirement director Stephen Lowe says: "There needs to be strong consumer protection and a competitive market. We have been arguing for 'authorised bureaux', which would facilitate a blind bidding process.

"There has also been a suggestion that an organisation like the Money Advice Service could provide a reverse annuity calculation tool to give consumers a sense of whether they are getting good value."

Retirement Advantage pensions technical director Andrew Tully says prudence would be needed with any such tool.

McPhail: 'Consensus on need for intermediary'

He says: "We would need to be careful that a tool did not give consumers unreasonable expectations.

"It has been suggested that advice could be mandated for those with annuities worth more than £30,000, as in the pension freedoms market. The difficulty is people will not know what their annuity is worth, so there needs to be a simple way of gauging that."

An ABI spokeswoman says it is not currently developing a portal and it is "early days" for ideas on facilitating the secondary annuities market.

*Tessa Norman*

PENSIONS

## Aviva eyes safety features for non-advised drawdown

Aviva is exploring the addition of automatic functions that aim to protect the first wave of non-advised drawdown customers.

The UK's largest life company launched a direct-to-consumer platform in June following the introduction of the pension freedoms, which have seen thousands of people engage with non-advised drawdown products.

Experts have warned that customers entering drawdown without advice risk running out of money in falling markets.

Aviva head of financial research John Lawson says: "I expect people will make poor decisions, invest in the wrong things and run out of money early. Firms in the long term can help customers by having rule bases in place, like they do in the States.


"The crudest form would be a 4 per cent withdrawal rule. But there are more sophisticated models that allow you to withdraw as much as you like but, in certain circumstances, such as a 10 per cent market fall, your income would be reduced unless it was overridden."

In March, *Money Marketing* revealed Aviva had scrapped plans for a phone-based guidance service following the FCA's final guidance on simplified advice.

One of the aims of the Treasury's Financial Advice Market Review is to "give firms the regulatory clarity and create the right environment for them to innovate and grow". A consultation on the proposals closes in December.

*Sam Brodbeck*

POLITICS

## HMRC grilled by MPs on 'unacceptable' performance

MPs have branded customer service levels at HM Revenue & Customs "completely unacceptable".

Earlier this week, a report from the Public Accounts Committee said the tax office was "worse than abysmal" on customer service. The report was published after HMRC chief executive Lin Homer told MPs that, between April and July, only around half of calls to the tax office were answered. This week, Homer said response rates had risen to 76 per cent.

But Treasury committee member Mark Garnier stressed that such performance remained intolerable.

He said: "Anybody would agree that 24 per cent of calls not being answered is completely unacceptable. If that was a commercial service, it would go bust."

Pressed by Garnier, Homer said around a quarter of calls to HMRC concerned routine issues and the tax office hoped to enable the public to access those services online.

She said: "What good [performance] would look like is giving people more choice about how they can contact us."

Committee chair Andrew Tyrie also questioned the role of staff morale in HMRC's performance, noting a December 2014 survey had found that just 28 per cent of staff endorsed the tax office's senior management and their ability to handle change.

*Mark Sands*

PENSIONS

## Women's state pension petition hits 30,000 signatures

A petition campaigning against state pension inequality has reached 30,000 signatures.

Women Against State Pension Inequality is urging the Government to improve transitional arrangements for women born after April 1951, who have seen their retirement age increase with little notice.

The campaign argues the equalisation of the new state pension age has been poorly communicated and left women with little or no notice to make alternative retirement plans.

Within three weeks of its launch, a petition by the group has passed 30,000 signatures and has already drawn a response from the Department for Work and Pensions. Campaign co-founder Marion Smulders says the group has hired a barrister to explore the possibility of a legal challenge to the timing of the reforms.

Pensions minister Ros Altmann is expected to face the work and pensions committee in January as part of its inquiry into the state pension.

A DWP spokeswoman says: "All those affected by faster equalisation will reach state pension age after the introduction of the new state pension, which will be fairer for many women and other groups who have done poorly under the outgoing system."

*Mark Sands* ▶

# The week in numbers

## 24%

**Proportion of calls not answered by HMRC staff. MPs have criticised the tax office's performance, calling it "completely unacceptable"**

## £500

**Amount each new employer using The People's Pension for auto-enrolment will be charged in 2016**

## Nine

**Number of insurers on the Financial Stability Board's "too big to fail" list. Dutch insurer Aegon replaced Generali last week**

## 400

**Number of advice firms and providers approached by the FCA for a data-gathering exercise to inform the Financial Advice Market Review**

## £10k

**Compensation awarded by the Pensions Ombudsman to an Abbey Life customer who was not made aware of a guaranteed annuity rate**

## £5bn

**Outflows in the year to September at Prudential-owned asset manager M&G**

## £100m

**Investment in film partnerships by Kingsbridge Asset Management on behalf of clients, including former England footballers**

## £733,794

**Payout minus bonus and redundancy payment Partnership chief executive Steve Groves will receive when the provider merges with Just Retirement**

REGULATION

# FCA targets charges in advice review data request

The FCA has written to roughly 400 firms to request details of their charging models as part of its Financial Advice Market Review.

The data request includes details of services available pre- and post-pension freedoms, and evidence of risks associated with servicing insistent clients.

The survey has been sent this week to a wide range of firms including directly authorised advisers, networks, banks and life insurers.

In the survey, seen by *Money Marketing*, the regulator also questions how firms use technology to support their services.

Informed Choice executive director Nick Bamford says: "It's asking about charging levels but it's also trying to find out the impact of freedom and choice.

"It's obviously trying to consolidate some quantitative evidence on behaviour, to go with the subjective stuff that will come in the call for input."

Jacksons Wealth Management managing director Pete Matthew hopes the regulator will not exclude smaller advice businesses from the data exercise.

He says: "The large firms seem to have a tendency to only want to deal with larger clients, so I really hope the FCA is approaching single-office operations to get their views as well."

*Mark Sands*

PENSIONS

# Just Retirement/Partnership merger puts up to 240 jobs at risk

Up to 240 jobs are at risk as a result of the merger of Just Retirement and Partnership.

The insurers – which are due to merge before the end of the year – estimate headcount will reduce by 5 per cent in the six months after the deal completes. They predict a further 10 to 15 per cent cut in staff numbers in the following two years.

Just Retirement and Partnership currently employ around 800 and 400 people respectively.

A note in a joint merger document published last week says: "No decisions have been made to date and, therefore, the precise number of employees and specific teams, roles and locations affected will depend on the outcome of a post-completion consultation and integration planning process."

Partnership cut 100 jobs after the 2014 Budget while Just Retirement cut 90 roles.

The firms are aiming to make £40m of savings by 2018.

The document also reveals Partnership chief executive Steve Groves is likely to receive over £1m in a severance package once the merger completes.

He will receive £733,794, representing a year's basic salary and a year's payment in lieu of benefits. In addition, he will be paid a £4,750 redundancy sum and a bonus for 2015.

Just Retirement and Partnership declined to comment.

*Sam Brodbeck*

PENSIONS

# 'No evidence' of HMRC rules cleaning up SSAS market

SSAS savers are still at risk of tax charges a year on from the introduction of fit and proper rules designed to protect against scams, providers warn.

Since 1 September 2014, HM Revenue & Customs has been able to refuse both to register a new pension scheme and to de-register an existing scheme if the scheme's administrator is found not to be a "fit and proper" person.

The move was in response to the growing threat of pension liberation from scammers using SSAS to cash out pension savings.

But providers say there is no evidence the new requirements have made an impact.

SSAS specialist Whitehall director Richard Mattison says there could be up to 20,000 "orphan" schemes being run without the help of an expert.

He says: "We all thought the new rules would also be used to clean up the orphan schemes notionally run by the clients themselves. But we've seen no evidence of that happening whatsoever.

"It makes you wonder if the rules are even being applied."

If a scheme is de-registered by HMRC, it becomes subject to a 40 per cent tax penalty. Additional charges can also be applied.

According to a source close to HMRC, the fit and proper rules are some of "the most-used tools in the arsenal".

An HMRC spokesman says: "The introduction of the fit and proper person test is an important safeguard in ensuring the pensions tax rules are not abused and work as intended by Parliament."

*Sam Brodbeck*

INVESTMENT

# Axa Wealth cuts fees for Axa IM Distribution fund

Axa Wealth is to reduce charges on the £973m Axa Investment Managers Distribution fund through its Elevate platform.

Elevate clients will now pay an ongoing charge of 0.51 per cent, compared to investors on other platforms who will continue to be charged 0.76 per cent.

The Distribution fund, which is also available through Axa Wealth's investment bond and retirement wealth accounts, delivered a 1.7 per cent loss over the past year, compared to a 0.8 per cent return for the Mixed Investments 20%-60% Shares sector.

But over five years the fund returned 33.3 per cent, compared to the sector's 32.1 per cent.

Axa Wealth managing director of business development and proposition David Thompson says: "By investing with us, advisers and customers can continue to benefit from the original team and strategy that made them select the Distribution fund in the first place."

In June, Axa Wealth added the Axa IM Smart Diversified Growth fund to its range, making it available until the end of 2016.

*Valentina Romeo*

# Quote of the week

**'If we didn't have Pension Wise, everyone would just go to their provider, and we know what they are like'**

**Pensions minister Ros Altmann argues it is in advisers' and consumers' interests to boost the take-up of guidance**

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**10** Celebrating 10 years of **PruFund**

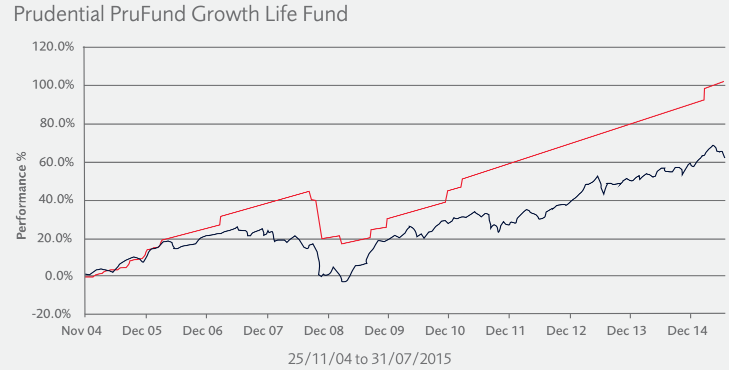
### Past Performance Proof

Annualised performance of the PruFund Growth Life Fund over the last 10 years.

| 3 years to 31/07/2015 | 5 years to 31/07/2015 | 10 years to 31/07/2015 |
|---|---|---|
| 7.2% | 8.3% | 6.9% |

### Percentage growth since 25 November 2004

Prudential PruFund Growth Life Fund




Source: Financial Express, bid to bid, net income reinvested but net of fund tax
Prudential PruFund Growth Life Fund ABI Mixed Investment 20%-60% Shares

PruFund Performance shown is gross of all applicable charges. Please note that some if not all of the Funds comprising the sector average will have fund management charges deducted from their performance. Past performance is not a reliable indicator of future performance.

The value of investments can fluctuate which will cause fund prices to fall as well as rise, investors may not get back the original amount of capital invested. The charges will vary depending on the product. Visit www.pruadviser.co.uk for details on the products (including charges).



PRUDENTIAL

TAX

# Footballers in misselling claim over £100m film investments

MARK SANDS

Two financial advisers are in the spotlight after they reportedly earned more than £5m from recommending film scheme investments worth a total of £100m to some of the biggest names in British football.

The Sunday Times reports that David McKee and Kevin McMenamin of Kingsbridge Asset Management invested almost £400m of their client's money over a four-year spell ending in 2007, with more than £100m in film partnerships.

The pair, whose clients included former England footballers Rio Ferdinand, Andrew Cole, Danny Murphy and Martin Keown, earned more than £5m in commission before HM Revenue & Customs launched a crackdown to demand repayments of historical tax rebates generated by the investments.

Property yacht berths in Florida which did not have access to the waterside and a Spanish property scheme were some of the investments in which footballers claim they had no idea McKee and McMenamin had an interest.

The footballers also borrowed money to invest, with Coutts lending the advice firm's clients £40m to put into schemes.

The advisers deny any wrongdoing. A spokesman told the Sunday Times that "without exception" clients were always advised of the suitability and risks of the schemes and were advised that such investments needed to be part of a balanced portfolio.

Ferdinand: IFAs earned £5m in commission from some of England's best footballers

## ADVISER VIEWS

**Trevor Goodbun**
**Chartered financial planner**
**Wensum Financial Planning**

I'll get my cheque book out – again. After all, I would hate to come between a very wealthy person who sought to avoid their social responsibility to pay their fair share of tax and their next Bentley. The current compensation system is unsustainable.

**Peter Herd**
**Managing director**
**Essential IFA**

Some of the blame should be laid at HMRC's door as these kind of schemes have been known about for years. Should we not be asking where were the tax inspectors over the last 10 or 15 years these schemes have been in operation?

REGULATION

# Ombudsman orders Abbey Life to pay out £10k for failing to alert pensioner to GAR

SAM BRODBECK

The Pensions Ombudsman has awarded a pensioner nearly £10,000 after provider Abbey Life and consultant Towers Watson failed to alert her to a guaranteed annuity rate.

Diane Godfrey paid into a company pension scheme, administered by Abbey Life, for two years up to 1980.

She retired in 2004 but was not issued with a retirement pack, which would have alerted her to the existence of a valuable GAR.

Towers Watson was also found guilty of maladministration for not asking Abbey Life for a benefits quotation.

Godfrey says if she had known about the guaranteed rate she would have taken it rather than go on the open market to buy an annuity.

As a result she bought an annuity paying £1,938.24 a year when the GAR would have paid £2,809.72.

The Ombudsman ruled Abbey Life should pay £7,603 plus interest to compensate for the lower income she received between 2004 and 2015.

Godfrey will also receive income from a new annuity to make up the shortfall and £750 from both Abbey Life and Towers Watson for the inconvenience caused.

However, a similar complaint made by Martin Sayer about Abbey Life and Towers Watson has been rejected by the Ombudsman.

Sayer said the firms failed to inform him his policy had a GAR when he transferred out of the plan in 2002. But the Ombudsman did not uphold the complaint as the respondents were not advising him about a transfer and because there was "no mandatory obligation to disclose information regarding GARs on transfer".

Ombudsman Anthony Arter adds he is not convinced knowing about the GAR would have made Sayer decided against a transfer.

He says: "He had taken advice from his IFA, and while the IFA's report is no longer available, there was clearly a good reason for him to transfer."

"Neither Abbey Life nor Towers Watson were advising Mr Sayer about the transfer of his pension rights."

# Debating the week's news online

### Follow the money: Pension Wise row deepens after staff dismissal

**Marty Y**

This is so typical of modern-day Government thinking. Throw a pile of money at it and say, "Aren't we great?" It is ridiculous that any money was used at any time for non-pensions work.

**Harry Katz**

The big problem for an ex-IFA is becoming what is in effect a Government employee. After spending a career thwarting bureaucrats, becoming one is no easy transition.

### Paul Lewis: Time to scrap the 'financial adviser' label

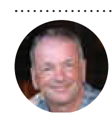
**John Reilly**

Thought-provoking piece Paul – maybe slightly problematic on the business card front though. And that is before you get into the matter of being restricted rather than independent. Fair, clear and not misleading? I am not as confident as you, to be honest.

**Dominic Thomas**

I would be happy to see the Chancellor and the Treasury take a few financial planning tests. They do not appear to have much of a clue and yet they are the ones shaping monetary and pension policy, so I would start there with a better label.

### Platforms face £25bn challenge ahead of sunset clause



**Anthony Peters**

It will be interesting to see what happens. There will be millions of pounds that will not be transferred unless there is a change in appetite to sort this out.

**These three stories had over 20,000 online views. We've had 600 adviser comments online in the past month. Join the debate @moneymarketing.co.uk**

ADVISERS

# Cost of acquiring clients is the biggest threat to robo-advice, says FinaMetrica

Risk profiler warns 'elephant in the room' is the necessary investment in marketing and promotion

TESSA NORMAN

The cost of acquiring clients is the "elephant in the room" in the online advice debate, says FinaMetrica.

In a report on the robo-advice market, published last week, the risk profiling tool provider says developing a successful online advice proposition requires a significant marketing investment.

FinaMetrica says: "Robo-advisers are very good at servicing customers, but do nothing to attract customers. Putting a robo-adviser to work effectively requires considerable investment in marketing and promotions, with no guarantee of success.

"To us, this is the elephant in the robo-adviser room that is seldom discussed - which we believe is a strategic failure of the highest order."

The report cites research by Lucian Camp, founder of Lucian Camp Consulting, which calculates the cost of acquiring a financial services client at £200. It says: "Acquisition costs include the costs of initially finding a prospect and then converting those prospects into clients, with the inevitable attrition rate that those conversions incur.

Camp: Calculating the cost

"The cost of acquiring a client for a robo-adviser can be as high as that for acquiring a client for a human adviser. Acquisition costs are likely to be the dominant component of operating a robo-adviser - often far more significant than the cost savings delivered by the robo-service."

The report also suggests that complaints about online advice can be easier to defend to the Financial Ombudsman Service than complaints about face-to-face advice.

Based on an analysis of some 40 FOS decisions, the report says rejected complaints tend to have the following in common:

- Evidence of well-documented advice including an explanation of charges
- Evidence that the client accepted the adviser's recommendations
- A clear and well-documented investment suitability process
- An online process

Co-author of the report and consultancy CGFT director Stuart Erskine says: "If you can demonstrate that an online process was followed then that is likely to be a better defence than a face-to-face process where there is more room for error.

"Complaints can also be successfully refuted by evidence that the client accepted the recommendations, and in an online process you can build this in as a specific step."

## ADVISER VIEW

**Matthew Harris**
**Director**
**Dalbeath Financial Planning**

I appreciate that having online evidence that a client has accepted the recommendations would be helpful in defending a complaint. However, there is more than one way to do that and a suitability letter can work just as well. It all depends how clear the online form is, because it is easy to click 'yes' to something without truly understanding it.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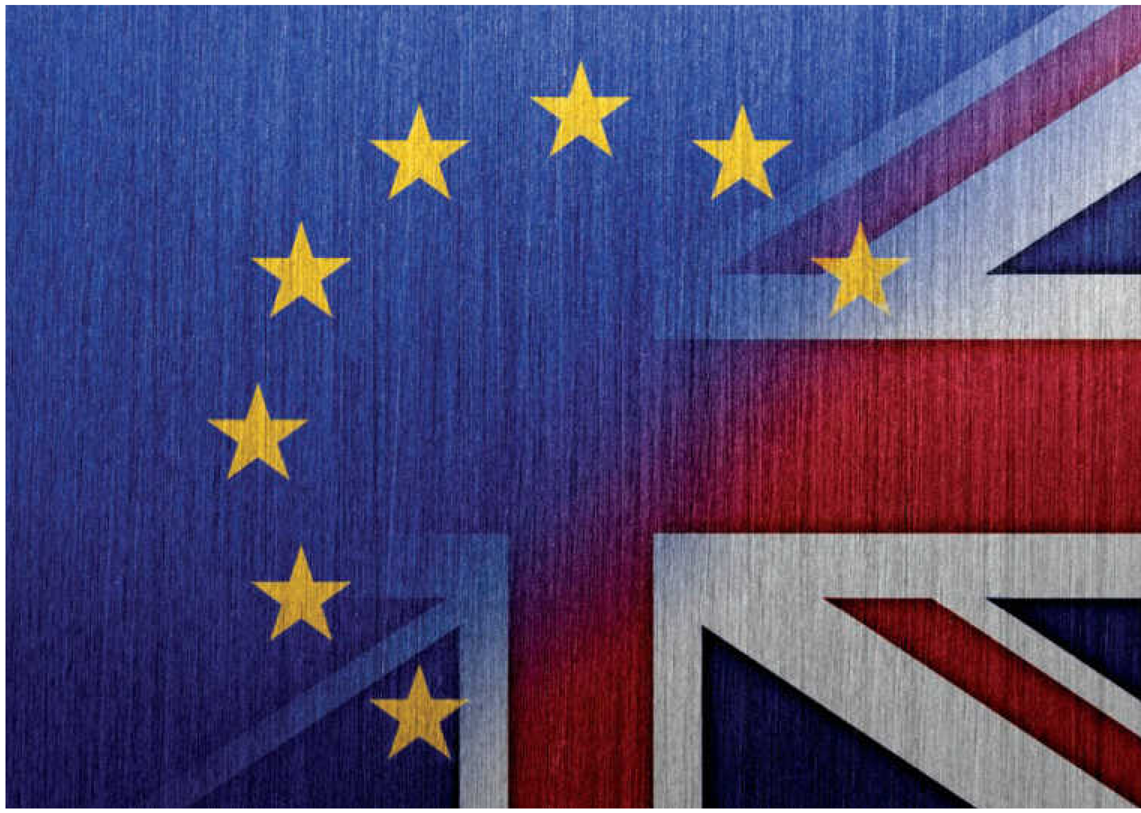
POLITICS

# MPs clash over 'scaremongering' report on likely effects of EU exit

Shadow minister warns of tougher compliance rules for firms and a 'weaker trading position' for UK

MARK SANDS



MPs have clashed over what the impact on the financial services industry would be of the UK leaving the European Union.

In a report published last week, shadow Europe minister Pat McFadden warns that firms could face a less flexible process for complying with EU financial services rules if the UK were to leave the union.

He also argues that exiting the EU would leave the UK in a "substantively weaker trading position".

In the event of an exit the UK could either follow Norway, which is part of the European Economic Area, or Switzerland, which is not but has bilateral agreements with the EU.

But McFadden argues that the UK would still have to contribute to the costs of the single market and would have to ensure its rules aligned with Europe's to some extent.

In the case of Switzerland, McFadden argues that Swiss regulators "have less room to exercise their discretion in a way that varies from what the EU Commission thinks is appropriate than financial servicers regulators such as the FCA have within the EU."

Ukip financial affairs spokesman Steven Woolfe says: "The EU needs the UK's skills, scale and expertise in these markets as much as we want out our firms to trade profitably there.

"But the unintended consequences of blanket implementation of coming EU laws can be avoided.

"Anyone who thinks Britain has influence today on the EU's economic and monetary affairs committee which formulates these regulations is truly misguided. We're better off out."

Campaign group Vote Leave spokesman Robert Oxley describes the report as "scare-mongering".

He says fears that Britain would still have to implement EU laws but without the ability to steer them overstate Britain's present influence. He cites as examples the planned EU bonus cap and the financial transaction tax, proposals that the UK has opposed.

Wealth Management Association deputy chief executive John Barrass says: "We should be very careful about expecting a beautiful golden world, not least because we have led a lot of EU regulation.

"We might hope for more sensible regulation were we to leave the EU but please don't think it will mean less regulation."

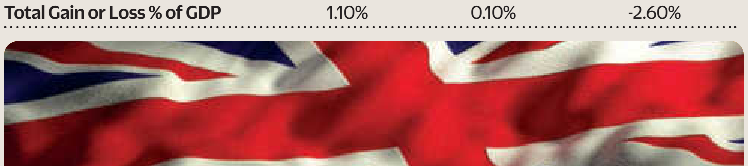
A late 2014 survey by Apfa found that 33 per cent of advisers have at least one client overseas. Only 25 per cent said they hold regulatory passports to deliver cross-border advice.

Apfa director general Chris Hannant says: "Those advisers might just decide to deal with those clients when they come back to the UK. It might just be that advisers change the terms of how they deal with overseas clients.

"Much will depend on what the actual proposition is. After all, that might affect whether all those expats remain overseas at all."

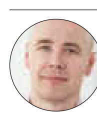
## IMPACT OF BREXIT ON UK

| | Best Case | Most Likely | Worst Case |
|---|---|---|---|
| EU trade (£bn) | -7.7 | -9.3 | -19.2 |
| External trade (£bn) | 5.6 | 2.1 | -1.8 |
| Budget Contribution (£bn) | 10 | 6 | 10 |
| Regulatory (£bn) | 3.8 | 2.5 | 3.8 |
| Debt Interest (£bn) | 0 | 0 | -17.2 |
| Total Gain or Loss (£bn) | 16.1 | 1.3 | -40 |
| Total Gain or Loss % of GDP | 1.10% | 0.10% | -2.60% |



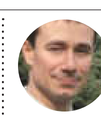
SOURCE: MANSFIELD "A BLUEPRINT FOR BRITAIN: OPENNESS NOT ISOLATION" (2014)

## ADVISER VIEWS



**Peter Chadborn**
**Director**
**Plan Money**

It could be out of the frying pan and into the fire if the UK is constantly having to prove equivalence, because it's not clear yet what that will actually entail. Most advisers have two or three clients that live overseas but have residence in the UK, but I don't know that this issue is on advisers' radar.



**Ian Lowes**
**Managing director**
**Lowes Financial Management**

Stepping away from the EU would have some benefits and some negatives, and it might be 20 years before we fully understand what the unintended consequences will be. Either way, all I see is increasing regulation and I don't think that's going to stop.

PENSIONS

# Nest rules out employer charge for auto-enrolment

Despite an NAO report slamming its model, the provider does not intend to follow The People's Pension and Now: Pensions with employer fees


Nest: 'How long it will take to become self-funding depends on factors that are difficult to estimate until auto-enrolment is fully implemented'

SAM BRODBECK

Nest claims it has "no plans" to add an auto-enrolment employer charge despite a stark warning from the National Audit Office over its funding and the introduction of charges by rival providers.

Last week, *Money Marketing* revealed The People's Pension will start charging employers who sign up with the provider on or after 23 November and have staging dates in January 2016 and beyond.

Employers who instruct the provider direct will pay £500 plus VAT, while businesses who join the scheme through an adviser will be charged £300 plus VAT.

The People's Pension follows rival mastertrust Now: Pensions, which announced in September it would be adding a charge of up to £40 a month from 2016.

The latest news about auto-enrolment charges comes in the same week the NAO claimed the Nest scheme funding model is "inherently uncertain".

A report from the NAO, published last week, assesses how the Department for Work and Pensions has handled auto-enrolment.

Nest was set up with a DWP loan, which stood at £387m in March. In the year to March the scheme had income of £18.5m but outgoings of £98.7m.

The NAO report says: "Although Nest will grow its funds under management as auto-enrolment and contributions increase, its funding model is inherently uncertain. As a simple illustration, for Nest to have been able to meet its costs in 2014/15, it would have needed to have around £20bn in funds under management.

> **Although Nest will grow its funds under management as auto-enrolment increase, its funding model is inherently uncertain**

"Given the Government's stated aim that Nest should be run on a not-for-profit basis and repay the department's loan in full, it will therefore need to grow its assets under management significantly from the £420m in March."

It adds there has been a "significant amount of change in UK pensions" since the loan was agreed in 2010.

But a Nest spokesman says there are "no plans to introduce a charge for employers who use Nest".

He adds: "Nest will continue to be a low-cost scheme for members. Nest was established to ensure a good quality qualifying scheme was available to any employer that needed to use one."

Nest executive director of finance Richard Lockwood adds: "The exact length of time it will take to achieve the level of assets under management required to repay the loan and become self-funding depends on a number of factors that are very difficult to estimate until auto-enrolment is fully implemented."

The People's Pension and Now: Pensions say the new charges will pay for improved support services to help the 1.8 million small and micro firms yet to begin enrolling staff.

Patrick Heath-Lay, chief executive of B&CE, the firm behind The People's Pension, says: "Our research and 30 years of experience working with small employers tells us they want simple solutions and a great deal of support in meeting their auto-enrolment duties.

"Our doors will remain open to everyone who wants to come to us, regardless of their size and their sector."

## ADVISER VIEW

**Andrew Day**
**Principal director**
**Depledge Strategic Wealth Management**

Most of us thought the employer charge from The People's Pension was inevitable. You cannot blame them as most of their customers are saving tiny amounts. It is not inevitable Nest will follow because it has an upfront charging structure.

## SPOTLIGHT ON REGULATION

GARRY HEATH

# Be bold

The Financial Advice Market Review is fully operational and creating a meeting of minds across the industry. The combined wisdom is that the FAMR has quickly widened to become a major review of what regulation will look like in the future.

It is also clear the regulator is looking to work constructively with the sector to create real and lasting reform.

The FAMR has been tasked to maximise the availability of advice to the UK consumer. This completely reverses the outcome of 25 years of regulation that has systematically removed advice from the poorest upwards. At long last, the abandoned consumer has a voice. The search for the perfect market is over.

It is clear nothing is excluded from this review. I am convinced this is a time to stop tinkering and exhibit bold thinking and bold ideas. To this end, we have been mooting the idea of professional advisers being regulated in a separated and dedicated lower-cost environment, ideally by a completely different regulator and ombudsman.

Advisers have to get away from the costs and attitudes of the current system. Changing the way the Financial Services Compensation Scheme is funded is essential, as is being regulated in a supportive way. Let us start building advice, not managing its decline.

I believe this idea has legs but only if the sector is bold enough to push for it. We must get the concept of a separate regulation into the review before Christmas. The FAMR offers advisers the chance of real change but only if advisers grab the opportunity now.

*Garry Heath is director general at Libertatem*

# Investment insight

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NEIL WOODFORD

## Window to the world

The FTSE All Share index's UK exposure only lies somewhere between 25 and 35 per cent by revenue

I am sometimes asked whether I feel constrained by having to invest the majority of the portfolios I manage in UK assets. In general, I believe fund managers operate most effectively in an environment where constraints are kept to a minimum but, in this particular instance, I do not mind being compelled to invest predominantly in the UK.

First and foremost, I consider myself to be a UK investor. I have been investing in the UK stockmarket for the best part of 30 years and regularly draw on this experience in the context of prevailing market conditions. Experience counts in this profession.

The second reason I am happy to focus on the UK is that the job of managing a global mandate is very different. The investment universe of the UK stockmarket is big enough. A global mandate requires filtering and screening techniques to bring the universe down to a more practical size.

I have never wanted to use such a filtering process because it relies on quantitative data, which may prevent me from becoming aware of investment opportunities that look attractive on any other measure.

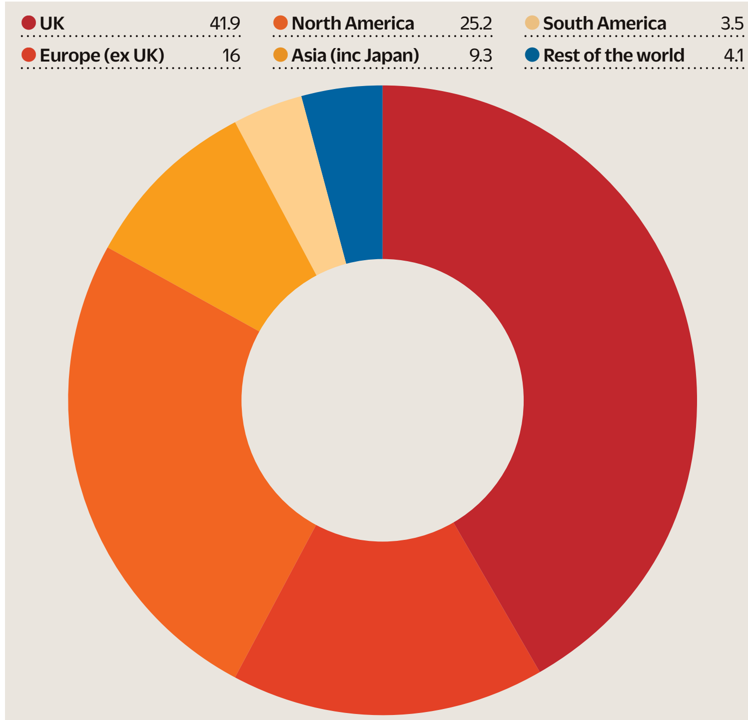
But third, and perhaps most importantly, the UK stockmarket is by no means a direct reflection of the UK economy. It is home to some very large, globally diversified businesses, some of which barely touch the UK economy at all.

We recently conducted analysis to calculate the CF Woodford Equity Income fund's geographic exposure by the revenues of the underlying companies into which it is invested. This is not as easy as it sounds: every company reports geographic revenues in its own way and simplifying all the variations involved some painstaking analysis and a reasonable amount of assumption. This pie chart above is the end result.

In terms of stockmarket listing, well over 80 per cent of the fund's assets are invested in the UK. On the basis of underlying revenues, however, the figure is broadly half that number. The fund also has a healthy revenue exposure to the US economy, which has of course been performing much better than most other economies recently. We would expect that to continue, albeit with a more modest growth rate going forward.

The fund also has a reasonable exposure to Europe and emerging markets, which implies a much greater level of geographic diversification than country of listing would suggest.

**WOODFORD EQUITY INCOME FUND - GEOGRAPHIC EXPOSURE**




AS AT 30 SEPTEMBER 2015

SOURCE: WOODFORD

**The UK stockmarket is home to some very large, globally diversified businesses, some of which barely touch the UK economy at all**

Growth prospects for these regions may look somewhat less robust but it is important to note we focus on dependable sources of growth, investing in businesses that do not need a buoyant economic environment in order to deliver sustainable long-term returns.

Despite this geographic diversification, the portfolio is actually much more UK-centric than the FTSE All Share index. This is down to our lack of exposure to oils, miners and other major global-facing businesses, which in aggregate account for a substantial part of the UK index but the vast majority of their revenues are sourced from outside the UK. Estimates of the FTSE All Share index's UK exposure vary but most analysts suggest it lies somewhere between 25 per cent and 35 per cent by revenue.

In general, the "less constraints equals more opportunity" mantra is very important. I will always consider myself a UK fund manager but, equally, I am delighted to have the scope to invest overseas where my knowledge of UK businesses lends itself to that context.

*Neil Woodford is head of investments at Woodford Investment Management*

# Retirement insight



JOHN LAWSON

## We have a lot to learn about safe drawdown

Research by US experts may hold the solution to the sustainable income conundrum

Freedom and choice have driven a big increase in drawdown sales and a growing sense that more science is needed to help people manage their savings as safely as possible.

With the exception of flexible drawdown (which, let's face it, only applied to those with significant pension wealth) pre-April drawdown came with a safety mechanism: GAD limits.

The rules preventing savers from withdrawing income greater than a comparable annuity stopped people depleting their drawdown savings to zero. Granted, even with these limits in place, significant damage to a drawdown portfolio was possible given bad market conditions.

But the GAD limits are no more and savers and their advisers are now responsible for imposing their own sustainable income rules.

This has led to increasing discussions around issues such as sequencing and volatility risk or, as some have described these dangers, 'pound-cost ravaging'.

So, where do we start? Most look to the US, where drawdown without GAD limits has always been possible. The science there is better developed, although there remains considerable room for further study to build on the excellent work of a few US financial planners.

The starting point for the US drawdown theory is the 'safe withdrawal limit', originally devised by Bill Bengen. Bengen examined the historical performance of a portfolio consisting of 50 per cent US equities and 50 per cent medium-dated treasury bills.

What Bengen found was that for any 33-year period starting between 1926 and 1976, you would not run out of money as long as you took no more than 4 per cent of the initial capital each year, increasing in line with inflation, from your drawdown portfolio.

This work led to the so-called safe withdrawal limit of 4 per cent or 'Safemax'. In calculating Safemax, Bengen did not take into account charges, which would reduce the maximum withdrawal but (due to the maths) not necessarily by the same amount as the charge.

Further work by Wade Pfau in 2010 calculated the UK Safemax to be just 3.43 per cent, again before charges and other costs are deducted.

Safemax is a rather extreme concept, accepting a zero risk of running out of money over any historical 30-year period. It also fails to manage a drawdown portfolio dynamically to optimise the amount of income that can be taken.

If clients are prepared to accept a risk of running out of money - even a small one such as 2 per cent or 3 per cent - then withdrawal rates (based on historical analysis) can be improved.

Applying withdrawal rules to historical modelling can also significantly increase the initial level of withdrawal.

A 2006 paper by Jonathan T Guyton and William J Klinger outlines a number of rules that could be applied to a drawdown portfolio, such as banking outperformance as cash to be drawn as income in fallow investment years. It also sets rules that determine which asset income withdrawals are extracted from, what happens when overall portfolio returns are poor and what happens when they are good.

Guyton and Klinger found it was possible to draw 6.3 per cent a year over 40 years from a 65 per cent equity, 25 per cent fixed interest, 10 per cent cash portfolio by following these rules with a zero chance of failure. This, again, was based on US asset returns.

Accepting just a 2 per cent chance of failure, the initial percentage withdrawal increased to 7.3 per cent.

Like Bengen, Guyton and Klinger also assumed withdrawals would increase in line with price inflation - in their case up to a cap of 6 per cent and, in years where portfolio returns were poor, there was no inflation increase at all.

This meant total withdrawals over 40 years did not equal 40 times the initial withdrawal in real terms. In the zero failure scenario, total real income was 93 per cent of 40 times the initial withdrawal and in the 2 per cent chance of failure case 88 per cent.

This research provides an excellent platform on which the UK financial planning profession can build.

Although this analysis focuses on the past (and, as we are reminded daily, the past is no guide to the future), some of the research stretches back almost as far as reasonably possible - in Pfau's case over 100 years.

Another possibility is to use stochastic models (Guyton and Klinger also used stochastic modelling to determine probability of failure). Stochastic models can help predict the probability of ruin using thousands of different potential future scenarios, including scenarios similar to the early to mid-1970s with disastrous asset price falls and runaway inflation.

Such modelling creates the basis for a discussion about the risk of running out of money over any given period relative to the amount being withdrawn, so clients can clearly see the trade-offs.

*John Lawson is head of financial research at Aviva*

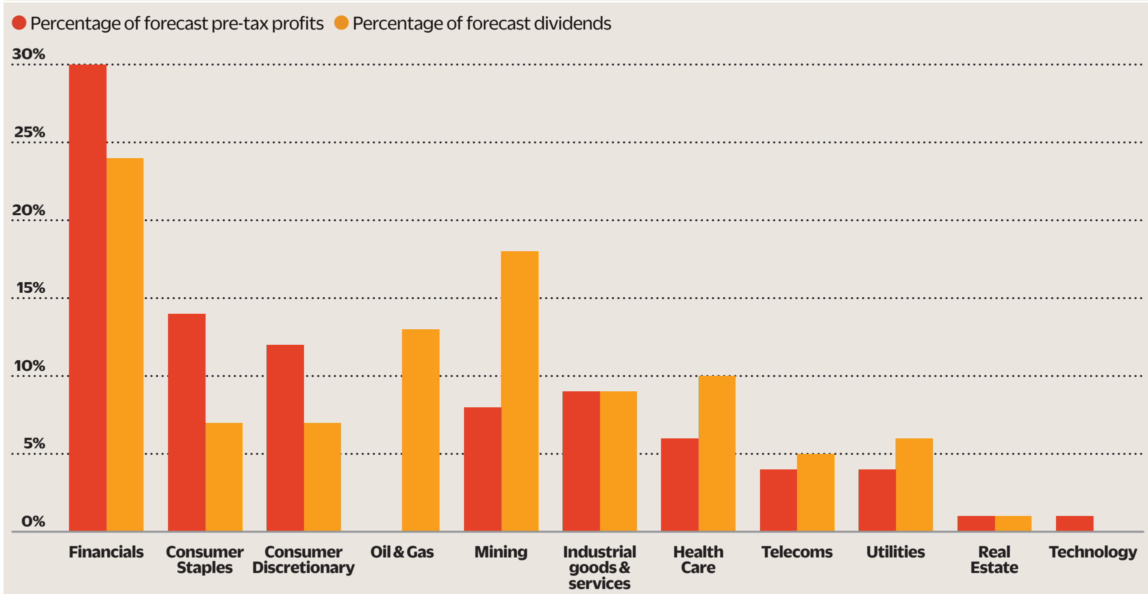
ANALYSIS

# Fund groups bet on banks in the search for income

## Banks are expected to deliver on profits and dividends next year despite continuing regulatory costs

VALENTINA ROMEO

FINANCIALS DOMINATE THE FTSE 100'S EARNINGS AND DIVIDEND PAYMENT PROFILE FOR 2016




SOURCE: AJ BELL / ANALYST CONSENSUS FORECASTS, COMPANY ACCOUNTS, DIGITAL LOOK

With the UK interest rate hike looming and the regulatory shake-up experienced in the last decade complete UK banks are now set to be one of the best performing sectors for 2016, managers say.

Financials are expected to be the strongest-performing sector in 2016 in profits and dividends, according to data gathered by AJ Bell, analyst views and web financial group Digital Look.

Thirty per cent of 2016 profits and 24 per cent of dividends for the FTSE 100 are forecast to come from financials, according to the research.

In terms of dividend growth, financials are also predicted to lead the way, representing 50 per cent of the expected increase.

AJ Bell investment director Russ Mould says banks may be the "most surprising" contributors to dividend growth next year.

He says: "Our research shows that one-fifth of the expected profit increase for 2016 is expected to come from the big five banks – Barclays, HSBC, Lloyds, Royal Bank of Scotland and Standard Chartered."

He expects Lloyds, HSBC and Barclays between them will generate 42 per cent of the FTSE 100's forecast aggregate dividend growth.

Architas senior investment manager Nathan Sweeney says banks have been "almost universally" unpopular stocks for many years but now their outlook is more positive.

He says: "Banks have had to cut costs and rationalise, rein in their international operations and return to focus on their core businesses. This has put them collectively on a much stronger footing.

"Given the problems across other areas of the FTSE from resources and commodities, there is a good chance people will start to hide in big stocks perceived to be resilient."

The long-awaited interest rate hike from the Bank of England would also be a turning point for banks to raise capital, experts say.

BlackRock fund manager Mark Wharrier, who runs the £350m BlackRock UK Income fund, says UK banks will benefit from the interest rate rise as they have not been able to make money from their deposits. "Rates start to flicker into life and [UK banks] is one of the few sectors that benefits from that," he says. "People often forget about that because it has been so long since we had a raise."

Wharrier has recently bought HSBC in the fund and added exposure to Barclays and Lloyds. The three make up 10 per cent of his portfolio.

He says: "It's an area where we are buying on a medium-term view. Everything that could have gone wrong for banks has gone wrong in the last decade but you are now in a position where capital ratios have been increasing to 12, 13 and 14 per cent."

Rob James, banking specialist in the UK equities team at Old Mutual Global Investors, is overweight the financial sector and in particular banks that "are able to restructure themselves".

He says: "The capital rules have changed to such an extent that the business banks were doing before would be economically unviable today."

The industry has welcomed the Government's sale of £2bn of Lloyds shares announced in October as ideal for those using pension freedoms and for first-time investors.

The bank is likely to become a solid dividend payer, says Hargreaves Lansdown senior analyst Laith Khalaf, who expects the lender to yield 3.5 per cent this year and 5 per cent next year.

However, experts do not have the same positive outlook for other big banks in terms of dividends.

Sweeney adds: "Lloyds is also visibly improving its cashflow, which has very much been a theme of the last few years. However, the market is less convinced about Barclays, with uncertainty about the new chief executive, low return on equity and no excess capital."

Jupiter's Alastair Gunn, co-manager of the Distribution Fund, says costs for UK banks have been too high for this results season and have been "disappointing".

He says although dividend growth expectations from many of these banks were higher this year, he is hopeful as "there is definitely more capital available for these businesses".

Gunn says he has always held HSBC but has recently added Barclays, which makes up 7.1 per cent of the fund, as well as Lloyds and RBS, at 7.5 per cent and 4 per cent.

Experts are hopeful the Government might soften bank regulation, enabling them to have enough to pay dividends, but there is more that banks need to work on at a time of slower economic growth.

Gunn says: "Over the last five years bank capital rebuilt substantially because they had to pay fines, but we are getting closer to the point where regulators are not squeezing any further."

Banks are also going to have to "work hard" to increase their earnings substantially, says Mould, who adds: "Without progress from the banks, the FTSE 100 may find it a stretch to dash past the 7,000 mark once more."

ANALYSIS

# Connolly backs strategic bonds amid monetary policy uncertainty

## Chase de Vere financial planner admits 'nerves' over fixed income as rate rises loom

PHILIP SCOTT

Chase de Vere's Patrick Connolly admits he is "more nervous about fixed income than anything else", given that global markets are on tenterhooks over when monetary policy will eventually start to tighten.

As result, the certified financial planner says he is pretty much exclusively using strategic bond funds, "run by managers with good track records" for fixed income exposure.

He highlights Philip Milburn and David Roberts, who manage the £659.6m Kames Strategic Bond fund, and Ariel Bezalel, who is responsible for the £2.6bn Jupiter Strategic Bond fund, as the types of managers he is putting his faith in at present.

While the firm does not offer off-the-shelf model portfolios, Connolly says for a balanced investor he typically recommends an allocation split of about 50 per cent in equities, 15 per cent in commercial property and, despite his reservations, 35 per cent in bonds.

Connolly highlights the potential double-whammy that lies ahead for investors, in that at some point interest rates are going to rise and central banks will stop being so accommodating - neither of which bodes well for bonds.

He adds: "There are potential liquidity risks, too, if too many investors head for the exit at the same time. Our fixed income allocation is more about protection on the downside as opposed to maximising investment returns.

"With our client portfolios we are trying to position them to be able to deal with whatever happens in the future."

Within his equity allocation, Connolly says the breakdown is generally 12 per cent of the portfolio in the US, 20 per cent in the UK, 8 per cent in Europe and the remaining 10 per cent spread across Asia and emerging markets.

Connolly: 'Difficult to anticipate'

He admits he is more concerned about the US than about the UK and Europe, but adds that this anxiety is really down to valuations.

"Then again," he notes, "the US is usually always overvalued in comparison to Europe and the UK. But it would be very usual for us to have more in Europe than in the US. The potential in the US of course is still there, as it is the primary driver of the global economy, and many companies there will do fantastically well."

However, his exposure there has come down over the past few years, though "only marginally so. At the very top end it would previously have been circa 15 per cent," Connolly adds.

While his biggest "balanced investor" equity exposure, at 20 per cent, is in the UK, looking at the current backdrop Connolly says it is "very difficult" to anticipate where the market could go from here.

"Our outlook at the start of 2015 was conservative, and then the market rose, only to subsequently fall back. I would not be surprised to see it rise or fall 10 per cent from here."

BALANCED INVESTOR PORTFOLIO

| | |
|---|---|
| **UK** | **20%** |
| Threadneedle UK Equity Income | 10% |
| Jupiter UK Growth | 10% |
| **US** | **12%** |
| JPM US Equity Income | 6% |
| HSBC American Index | 6% |
| **Europe** | **8%** |
| BlackRock European Dynamic | 8% |
| **Asia** | **5%** |
| Aberdeen Asia Pacific Equity | 5% |
| **Global Emerging Markets** | **3%** |
| JPM Emerging Markets | 3% |
| **Japan** | **2%** |
| Schroder Tokyo | 2% |
| **Fixed Income** | **35%** |
| Kames Strategic Bond | 15% |
| Jupiter Strategic Bond | 10% |
| Henderson Strategic Bond | 10% |
| **Property** | **15%** |
| M&G Property Portfolio | 10% |
| L&G UK Property | 5% |

SOURCE: CHASE DE VERE

With just three per cent in global emerging markets Connolly is not overly bullish on the region, a feeling echoed by many of his peers given that the strong US dollar and threat of tighter monetary policy are weighing down on sentiment.

He believes there may well be light at the end of the tunnel, although he, like others, is waiting for it to show.

"Sentiment has been terrible for some time, emerging markets have underperformed western markets for some five years or so. But from a pure valuation perspective you could make the case that there is an opportunity to be had. But the market is waiting for some catalyst."

As a result of the divergence of fortunes across the sector, he uses only broad global emerging market vehicles, such JP Morgan Emerging Markets, to access the asset class.

Commercial property has endured its bad times but recently, unlike emerging markets, has enjoyed a particularly purple patch. Chase de Vere has been a consistent holder of the asset type.

Worries are however beginning to creep in once again, given the amount of cash that has flooded into bricks and mortar funds.

Connolly acknowledges that there are risks at present, with a lot of money looking for properties at the right price.

He says: "Some fund managers have moved more into the secondary market, away from prime, to find value, while others have stayed in the prime market with the knowledge that they are going to be paying a higher price.

"But overall it is a good diversifier, it pays an income and, long term, should provide some growth."

# Independent thinking

NIC CICUTTI

## We are starting to drift slowly into another pensions crisis

More and more people are making use of pension freedoms with little evidence of financial advice

You probably won't know this, but this year is the 30th anniversary of *Money Marketing*'s launch in 1985.

I was reminded of the fact because earlier this week the magazine hosted a dinner in London which several of *Money Marketing*'s long-term contributors were invited to attend.

True to form, we were invited to sing for our supper, being filmed while a camera crew asked two questions: "What do you think has been the most defining moment in financial services in the last thirty years?", and "What do you predict will be the next big shake-up in financial services?"

For me, the two answers were "pensions" and "pensions". The defining moment in financial services was the introduction of the 1986 Social Security Act, which gave employees the right to leave or decline to join their employer's pension scheme. At the same time, it introduced personal pensions to the general public.

Back then, government experts predicted that 500,000 people would opt for a personal pension, but that figure was reached in weeks. In two years, almost four million personal pensions were sold, many of them consisting solely of rebates paid to persuade people to opt out of Serps.

The number of personal pensions rose to more than five million by 1993, just before the edifice began to crumble in the wake of an inquiry by the Securities and Investments Board, the first City financial regulator, into suspected misselling.

Back then, we totally underestimated the likely impact of what was to follow. When the Financial Times's former pensions correspondent Norma Cohen broke the story about the SIB pensions review, the talk was of a compensation bill running into hundreds of millions of pounds, something I described at the time as "one of the biggest financial calamities to hit the City".

How little we knew. By the time the final dribs and drabs were paid in the early to mid-Noughties the final cost, including the review itself and fines levied on those who delayed paying redress, topped £11bn.

Far more important than the compensation costs was the change in attitudes it engendered. If they had previously been sceptical about the merits of saving for retirement, many consumers now found there was increasingly little to choose between personal pensions and company schemes, where a corpulent Czech publisher could steal your money before falling off the back of his yacht.

The sense that you could never really trust a financial adviser or be bothered to save probably began in earnest in the mid-1990s. Every other misselling scandal since then, from with-profits endowments to payment protection insurance, has confirmed what we first learned in the aftermath of 1986.

It is because of that experience, massively underestimated at the time, that I predict the next big shake-up will once again involve pensions. Specifically, it will involve the Government's liberalisation of the pensions regime to allow people to take cash out of their personal pensions.

What we seem to be seeing are two things happening in tandem. The first is that more and more people are making use of these new freedoms to extract money from their schemes.

Last week the FT reported that pension providers have paid out £2.5bn in 166,700 lump sums in the six months since April. In addition, a further £2.2bn was paid out via 606,000 income drawdown payments, according to the Association of British Insurers.

Meanwhile, Tom McPhail, Hargreaves Lansdown's head of pensions research, has estimated the tax take for the Government so far is about £666m, more than double its original estimates.

**How they figure out that leaving 52 per cent of their money in a tax-efficient pensions environment will provide the funds they need 20 years down the line is anyone's guess**

Intriguingly, what the figures also indicate is that people taking their money out of pensions are clearly doing so on the basis of a calculation of some sort about what they can afford to free up and how much they should leave in their pension. The FT quoted an estimate by Just Retirement external affairs director Stephen Lowe to the effect that people are accessing about 48 per cent, a little under half, of their pension pots.

Precisely how they are figuring out that leaving the other 52 per cent of their money in a tax-efficient pensions environment will provide them with the funds they need to meet their retirement needs 20 years down the line is anyone's guess.

Which brings me to the second aspect of the tandem effect I referred to earlier: this mass withdrawal of cash is being carried out with little or no evidence of financial advice.

As *Money Marketing* has repeatedly indicated, take-up of even the incredibly limited form of 'guidance' on offer through Pension Wise is way under what many people assumed would happen.

In turn, Citizens Advice is trying to retrain pensions advisers in other aspects of its work, although it strenuously denies suggestions it may want to redeploy staff.

What we are starting to see is a slow-motion drift into another chapter of a saga that began in the 1980s but will come to fruition in another 20 years' time.

If both *Money Marketing* and I are both still around in some form or other, it will be interesting to speculate on which topic attendees at the 50th anniversary dinner will decide is the most important. My bet is still on pensions.

**Nic Cicutti can be contacted at nic@inspiredmoney.co.uk**
**Follow him on twitter @NicCicutti**

**Agree/disagree with our columnists?**

**We've had 500 adviser comments on our website in the past month @moneymarketing.co.uk**

NEIL LIVERSIDGE

# The true victims of the advice gap

Citizens Advice recently published a report claiming almost half the UK's adult population - 23 million people - would have taken financial advice at key moments of their life had it been on offer.

It found a third would take advice on starting work or changing jobs, a quarter when buying a home and 37 per cent when going through a divorce or separation. Three million would have taken free advice in the last two years had they known where to find it and 5.4 million would supposedly consider paying for it were it cheaper.

So what? Most people will take anything if it is free, whether they need it or not. Being free only guarantees it will be less valued than it might otherwise have been had it been paid for.

To meaningfully quantify the advice gap we need to identify who falls into it and why. I would say there are four distinct groups but in reality only one of those are truly gap-ites.

The first consists of those who will never be helped because they are lazy and feckless. Sensible advice for them boils down to "stop spending your money on Special Brew, takeaways, fags and Sky TV and start buying food down the market and preparing it yourself". They will ignore it, however, because it is not how they want to live. They are not victims of the advice gap.

Then there are those who can afford to pay for advice but just do not want to. This is the constituency to which the Daily Mail panders: Victor Meldrews who have the Financial Ombudsman Service on speed-dial. They will grab with both hands anything free. But they are only part of the gap because they choose not to pay for advice. Should we be subsidising them? I think not.

Third come the poor but responsible. With them I sympathise. They manage their money as best they can but just do not have enough. Spending less is not a realistic option. The cost of housing and travel to work is a significant proportion of their budget. They have nothing left to save or invest. Some in our industry deny they exist. They do: some are my friends and neighbours. They are not, however, part of the advice gap because advice will not become relevant to them until they have surplus income and capital to require it.

**Most people will take anything if it is free, whether they need it or not**

Only when they rise into group four will they become the true victims of the advice gap. Perhaps they will want advice on putting away £100 per month. In the days when an adviser could earn £500 upfront for setting up some sort of regular savings plan they were perhaps just worth advising. Now they are not.

Time was when we turned nobody away. Sadly we are now often forced to. If the regulator really wants to fill the advice gap, then it should permit a limited reintroduction of commission.

If it is not prepared to do that it should stop expecting advisers to solve its failure embodied in the RDR that created it in the first place.

*Neil Liversidge is managing director of West Riding Personal Financial Solutions*

NICK BAMFORD

# Judged by those less qualified than us

I have just finished reading a brilliant book by neurosurgeon Henry Marsh called Do No Harm.

The senior managers of the Financial Ombudsman Service could do with reading it, in particular the part where Marsh tells of a case review managed by NHS personnel whose qualifications and technical knowledge were conspicuous by their absence. Can it really be right the performance of an experienced, competent and qualified surgeon is judged by those without such attributes?

While not usually about life and death, financial advice is highly complex. So it is only fair a client complaint that arrives in front of an adjudicator or ombudsman be dealt with by someone with equivalent experience and qualifications as us.

I am not the only one who thinks this. An adviser friend of mine recently wrote to the FOS asking for reassurance any complaint that might be sent to them would be dealt with by personnel as technically competent as he is. He wrote: "I must (and do) hold advanced level pension qualifications before being able to offer advice in this complex area. I would therefore, as a minimum, expect anyone adjudicating on complaints in this area to be similarly qualified. How many (and what percentage) FOS staff involved in this area hold the CII AF3 or CII G60 pension qualifications (or equivalent)? And is AF3/G60 a minimum FOS qualification requirement for staff adjudicating in this complex area?"

These strike me as reasonable questions. After all, advisers have had to significantly up their qualification game, so presumably those who adjudicate complaints have had to do the same?

Here was the response: "While your role is to give financial advice, our adjudicators and ombudsmen do not give financial advice. Their role is to settle disputes between consumers and financial businesses. The technical, academic and professional experience of our adjudicators and ombudsmen are diverse. So we do not require our adjudicators and ombudsmen to hold specific qualifications."

Wow. Leaving aside the blindingly obvious (and somewhat condescending) start to that response I think it tells us all we need to know about the FOS. It hangs onto a broad statement about diverse experience and technical knowledge but goes on to state: "We do not require new and current employees to record their qualifications on our HR systems and therefore are unable to provide you with the percentage of adjudicators and ombudsmen who hold the qualifications you mention."

Imagine an adviser firm saying something like that to the FCA. We all know where that would lead.

Are my friend and I being unreasonable? Can it be that to judge on a complex defined benefit to defined contribution transfer complaint a lower qualification standard is acceptable? I accept both advisers and adjudicators or ombudsmen need to keep their knowledge up to date but surely the base starting level should be the same?

Marsh found himself being judged by managers and customer care staff in the NHS. I am not for one moment saying we are like brain surgeons but surely the FOS staff should be suitably qualified and fit for purpose?

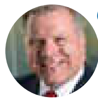
*Nick Bamford is executive chairman at Informed Choice*

# What advisers are saying

## ON THE WEB

This is a small selection of the debate taking place online at moneymarketing.co.uk

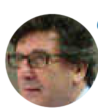
We also like to receive letters to the editor, which can be sent to natalie.holt@centaur.co.uk or 79 Wells Street, London, W1T 3QN



*Comment related to article: Footballers in misselling claim over £100m film investments*

While footballers may reflect on their desire to avoid paying their taxes, it is a great shame that people who are great with a football on the pitch are exploited for their lack of knowledge off the pitch. It is a shame people who earn so much money are advised to save tax rather than to invest wisely. It is the tax tail wagging the investment dog again.
**Brian Gannon**

The Financial Services Compensation Scheme should not pay out a penny on this. It is a fundamental principle of law that cheats should not prosper. If the FSCS pays out then nobody has anything to lose by participating in such schemes. If they work they dodge the tax but if they fail then the FSCS pays out anyway. The FSCS does not seem to get that, however.
**Neil Liversidge**



*Comment related to article: MM leader: The not-so-isolated case of Pension Wise failings*

Over the years consumer protection and thus regulation has become funded by an industry levy. Put bluntly, it is a tax on companies.

The Treasury has instructed the FCA to raise about £39m by way of the Pension Wise levy. I am not against Pension Wise and I feel it has a place within pension freedoms. What I do question is how this money is being spent on delivering the outcomes. *Money Marketing* is right to question how the money is spent, especially when the resources are used to subsidise the funding within charitable organisations such as Citizens Advice.
**James Clancy**

## EDITOR'S COMMENT OF THE WEEK


### Show consumers value of advice

There is a psychological advantage of a voucher system for advice which everyone seems to have overlooked. If you tell someone, "Come to Citizens Advice for a free guidance session", people will not attend. This is because they assume they will get what they are paying for; that is, nothing.

Give someone a voucher that reads "£500 of professional financial advice", however, and they will not throw it away. Imagine the "£500" in big gold letters. No one is going to bin something that says it is worth £500.

A voucher system would have been so much cheaper and simpler than Pension Wise, and people would have actually used it. But the Government does not seem to want to tell people that professional financial advice is of value.
**Sascha Klauss**

## ADVISERS

PHIL WICKENDEN

# Loyal clients tell the best stories

Some things just do not and should not ever change.

Take, for example, these deliciously British social hang-ups:

- Saying sorry to someone for absolutely no reason and then feeling annoyed when they do not say it back.
- Violently tapping the train door button before it is illuminated to assure everyone the situation is in hand.
- Watching with quiet sorrow as someone makes you a different sandwich to the one you ordered.

Other things probably should change, though: our approach to marketing, for one. Word of mouth communication remains one of the oldest but most vital tools available in business generation. But too often our old school funnel approach to marketing seeks to put random people in at the top and trust that

**Q: TELL ME A BIT ABOUT YOUR APPROACH TO REFERRALS...**

**"We make sure it is part of out mind map ahead of any client meeting. So it is on the agenda and it is something we know we are going to talk about"**

**"I say to my clients 'who do you know that you think I can help?' I hardly think that's pushy. It is about believing in your value.**

**"One of our paraplanner's jobs is to ensure that I follow up any referrals. We also have meetings to discuss who is referring who and what the outcomes are. You need to measure it or it will not get done"**

SOURCE: SO HERE'S THE PLAN

**Your two cents worth?**

**We've had 500 adviser comments on our website in the past month**
**@moneymarketing.co.uk**

*Comment related to article: FCA raises non-advised drawdown concerns*

For how many years has the FCA been steadfastly ignoring calls for the open market to be the default option? Yet now they are hinting they might mandate exactly this, as if it is their idea.

And how can non-advised drawdown possibly be anything other than highly dangerous? It is risky enough on an advised basis. We know that far too many people, now freed from the shackles of annuity rates, see income drawdown as an easy route to extracting a quart from a pint pot. But it just cannot be done.

**Julian Stevens**

Is the FCA serious when it talks about potential evidence that consumers are not shopping around? It is common knowledge among the large pension providers that most consumers to date are releasing tax-free cash and then leaving the remaining funds invested. Shopping around is non-existent.

I have been to three seminars where the figures are shocking. Two very large pension providers have told me their data follows that same pattern. Too few consumers are shopping around because (a) they are scared of the costs of advice, (b) ignorance, (c) horror stories in the media and (d) the complexity, especially the illustrations and literature, which is baffling.

That in itself, however, does not concern me as that is a personal choice to release tax-free cash. What does concern me is the remaining funds. Given the average consumer's knowledge of personal finance issues, where have these funds been invested? One certainty is incorrectly.

**Greg Heath**

*Comment related to article: Chris Gilchrist: The real agenda behind the advice review*

I would argue that the cost of advice has always been something of an elephant in the room for people without much money: it is just that in the bad old days, the elephant was pretty much invisible.

In these self-reliant times, a basic modus operandi that involves presenting people with hugely complex and critical decisions and then offering them one-to-one advice is never going to work. The advice will always be too expensive, no matter who is ultimately picking up the tab.

There's only one solution: to simplify products, and the large majority of the decisions relating to them, so that most people, most of the time, can get good outcomes without the need for expensive one-to-one advice.

**Lucian Camp**

loyal customers come out at the bottom, telling all and sundry about how wonderful we are.

That is the obvious (and ineffective) path of outbound marketing. True loyalty, though, usually comes from within, from a story we like to tell ourselves and others. We are loyal to products, companies and people because being loyal makes us happy. Why else would anyone be an Arsenal supporter for the seven years that goalkeeping services were rendered by Almunias and Flappianskis? Some customers like being loyal. Those are good customers to have.

So you need to tell a story that appeals to loyalists, part of which I addressed last week when I said to generate more referrals, you need to first be referable.

But there is much more to it than a punchy raison d'être. Much rests on circles of influence and the "52 rule" (which has nothing to do with Harry Potter). Research shows that each of your clients has an inner circle of around 52 close friends and family who form your best possible list of prospects. People within these inner circles share demographic characteristics and have similar needs, making them easier to target. Broadly, every advisory business has the following: suspects, prospects, customers, clients ('honeymooners' and more long-standing ones) and advocates. The latter three groups are the key to unlocking referrals but need to be targeted very differently.

It is essential businesses take a more structured approach than they do now. Be intentional about asking for referrals ahead of any client meeting, build referral teams, schedule meetings to discuss who is referring who, set up an advocate committee with clients and, perhaps most importantly, thank your referrers. Surprisingly, it just does not happen all that often.

*Phil Wickenden is managing director of So Here's The Plan*

## AT THE COAL FACE

PETE MATTHEW

# Culture is everything

A little over a year ago, my company moved to new offices after 24 years at our old place. Our former home was a listed building, so we could not have signage. It had also become cramped and dingy. By contrast, our new 3,000 square foot office is bright and airy, with lots of room. It gets plenty of footfall past the door and we have more signs than Las Vegas. Nearly.

Clients speak highly of the new office, particularly if they knew the old place. They comment on the brightness of the decor and the obvious increase in space. More than anything, however, they comment on how the place feels. They say there is a fun atmosphere, an air of relaxed focus and that everyone seems to get on well.

The space has really brought out the best in our staff and enabled them to express themselves through their work. It feels like we have a culture now, which was somehow hidden before.

Culture is a difficult word to nail down a satisfactory definition for, particularly in this case. But as we grow, the importance of maintaining our culture is becoming more obvious than ever. As it does so, I find myself observing other companies we work with and how they are building their culture, even as they grow rapidly.

Companies like Seven Investment Management, for example, which is growing fast yet continues to maintain the founders' core values in everything it does. Like Nucleus, whose sense of fun pervades every communication I receive from it. And like The Lang Cat, where, while smaller than the previous two, you can still feel the humour and heart of founder Mark Polson in its excellent publications.

I believe culture makes a company and helps keep customers engaged. So many things that used to be differentiators, such as qualification levels and professional body affiliations, are now just expected by clients. As an industry, we are in danger of being forcibly homogenised by the RDR, the Financial Advice Market Review and market forces. But if we can maintain our uniqueness we will be in business for many years to come. Why? Because people will always buy people, at least when there is serious in-depth advice to be had.

Robo-advice services will never trump this or be a threat to a well-run local financial planning business because the latter will always have enough clients wanting to feel a part of the culture. Large advice firms, many of which like to preach they are the only business model that will survive in future, also struggle to instil any depth of culture in their nationally spread advisory teams. What little culture they may want to build quickly gets throttled by compliance.

**If we can maintain our uniqueness we will be in business for many years to come**

I see firms swallowed up by large consolidators, signing away their uniqueness and haemorrhaging clients. When I retire, I want to be able to walk down the streets of Penzance with my head held high, knowing I did the best thing for my clients and employees.

It is essential to foster a healthy culture in your company. It defines your firm and keeps you unique and attractive in clients' eyes. It should permeate every document and email you send, every brochure you make and the start-to-finish experience of clients in your office. It comes from the top, so lead by example.

*Pete Matthew is managing director of Jacksons Wealth Management*

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# Seven Families success?

One year on, opinion is split on whether the campaign has lived up to expectations

**TESSA NORMAN**

The Seven Families campaign has been a "springboard" to improving consumer awareness of protection, say industry experts.

One year on from the campaign's launch, commentators say the initiative's greatest successes have been improving adviser engagement and bringing industry funding together.

But others say the project has failed to ignite consumers' interest in the way many hoped.

Seven Families was launched a year ago by the Income Protection Task Force.

In partnership with charity Disability Rights UK, it has provided financial support for one year to seven families where the breadwinner is unable to work due to poor health.

Almost all major providers contributed funding of £20,000, giving the campaign a total budget of around £350,000.

Half of this was spent on providing financial support to the families, while the rest was spent on promoting the campaign. It has been promoted through videos telling the families' stories, press coverage and social media.

There have been 269,000 views of the videos through Facebook and YouTube and 550 pieces of press coverage, according to the IPTF. It says that 10 to 15 per cent of the press coverage has been in consumer publications, including the Mail on Sunday, the Sunday Times and the Independent.

Further activity is planned in the coming months, including radio coverage.

Protection Review chief executive Kevin Carr says: "Throughout the campaign we have not talked about insurance and that has made it more human.

"The public are smart enough to see what has happened to these families, and to think about what they can do to prevent it from happening to them."

According to the latest Swiss Re state of the market report, IP sales grew by 7 per cent between 2013 and 2014, from 90,794 to 96,889.

And earlier this year protection portals iPipeline and The Exchange reported a spike in the number of IP enquiries they received between November 2014 and January 2015.

Carr says: "We cannot definitely say any increase in IP sales is down to Seven Families but this has galvanised the industry like nothing before, and the video viewing figures are a good indicator of the impact it has had on consumers."

Zurich head of retail propositions Peter Hamilton says the campaign has engaged advisers in selling protection.

He says: "Almost all the network meetings I have been to in recent months have used the Seven Families videos in adviser presentations.

"For me, the video of Paul Pickford [who is cared for by his wife after suffering a stroke] is the most powerful I've seen in more than 30 years in the industry, highlighting the impact on Paul and his partner, whose life has been turned upside down."

But Lucian Camp Consulting founder Lucian Camp says the campaign has failed to boost consumer awareness.

He says: "This initiative was never likely to have a huge impact on consumers because it was just not set up on that kind of scale.

"As a collective initiative designed to influence the industry it has been excellent. But when it comes to consumers I don't understand why the big players won't market their services with proper budgets.

"Seven Families is one part of the jigsaw, but providers should have been running their own marketing alongside it to give it a boost."

Masons Financial Planning principal Dean Mason adds: "It is easy to forget that even among advisers, many of those who aren't in the media-savvy London bubble will not even have heard of Seven Families.

"It is a brilliant initiative but the providers with big budgets should be putting more money behind it and promoting it through TV and radio."

But Aviva protection managing director Louise Colley says it is "naïve" to think bigger budgets are the answer.

She says: "You can put as much money into marketing as you like but it is all about having the right message and effort behind it."

Others say the campaign has been a learning opportunity for future initiatives and shows the industry needs to become more social media savvy.

Scottish Widows protection manager Johnny Timpson says: "Advisers now have these high quality videos to use but many say they don't know what to do with them because they don't have a social media strategy or the ability to host videos."

Highclere Financial Services partner Alan Lakey says: "If this was a one-off event it would be slightly disappointing. However, if you look at it as a springboard for further initiatives, then it has been a success as it has got all the major companies putting their hands in their pockets and working together."

# Commentary

PETER CHADBORN

## Conferences in need of a shake-up

Why do I not go to many conferences? Is it because I am busy or lazy? Among the daily spam littering my inbox is a constant stream of offers for a variety of conferences and the opportunity to hear some big cheese telling me how to do my job.

The invitations reassure me of a chunk of continuing professional development but, quite frankly, any IFA or broker who takes the job seriously should not struggle to fill their annual CPD quota. Having to do so at random conferences baffles me.

The first consideration on receiving a conference invitation is: what will I learn from this? Will it make me more informed and help me do a better job for my clients? Of course, the subject matter is important but so are the speakers. Many organisers think getting a line-up of chief executives from life offices is going to entice us, like awe-inspired teenagers given a chance to meet their pop star idols.

The reality is such people, as clever and interesting as they may be in private or small groups, have generally never done my job and rarely speak to anyone who does my job. With this in mind, I will need a lot of convincing they are worth going to hear.

I want to see people I can learn from - entrepreneurs, peer group thought leaders and, importantly, someone who has a decent working knowledge of my world - not a compliance-diluted presentation.

Assuming a relevant and stimulating subject matter and an engaging speaker line-up, the next consideration is: do I really need to be there at the venue or is there a webcast equivalent? The travel cost is not the issue; it is the time. We can spend as much time travelling to an event as we spend at the event itself and so one answer to why I do not go to many conferences is, generally, time-management.

**Many organisers think getting a line-up of chief executives from a life office is going to entice us**

MM Wired is a great example of something I can engage with: a focused topic and diverse panel, all in 30 minutes, available at a time of my choosing from the comfort of my desk. I do not watch a huge amount of television but when I do it is generally via catch-up or Netflix: at my convenience, not the schedulers!

Another issue is that of independence. If the event is hosted by a single life office then we should not be surprised to get the product-bash.

That does not mean I am not interested but getting someone to come to our office for an hour is a far more cost-effective use of our time than half a dozen of us traipsing off to some generic hotel and losing a day (along with the will to live). It also means the session is kept relevant to us.

I get the networking argument. After all, in the words of the wonderful author John Le Carre, "A desk is a dangerous place from which to view the world." But the quality of the networking is as important as the quality of the event and I find the two are usually mutually exclusive.

*Peter Chadborn is director and adviser at Plan Money*

MARTIN WERTH

## Introducing your digital customer

Long-term success requires companies to position themselves where the best growth opportunities lie. Direct-to-consumer is the most talked about potential growth story but the future will not simply be an extrapolation of the past. Customer habits have changed and so too must we.

Digital has emancipated customers who expect fast access to the right information to make informed 'buy now' decisions at any time across any device. Online personalised comparisons and customer feedback have replaced advice and brand loyalty to empower consumers to make decisions. Expectations continue to be raised: Amazon has made speed of delivery as important as speed of purchase, while Facebook has positioned mobile as the first point of engagement.

Price comparison sites have transformed general insurance with their powerful message of saving money. Their ease of use and personalised comparisons across respected brands has secured high levels of trust. Nevertheless, consumers are told to check more than one site and consider quality as well as cost.

This expectation to compare has led retailers to make it easier. Supermarkets, for example, have responded with price match guarantees. Confidence also comes from trusted brands. Price comparison sites today feature powerful retail names alongside traditional insurers.

Meanwhile, consumers expect to buy or access support in the way that best suits. Retailers use the phrase 'omni-channel' for a unified buying experience, regardless of whether the customer engages online, in store, over the phone, or starts on one site, moves to another and then back to the first.

These insights provide valuable lessons for unlocking the D2C protection growth opportunity.

**Lesson 1:** Replace 'direct' with 'digital' in D2C and extend the customer access points to include price comparison sites, intermediaries and insurers.

**Lesson 2:** D2C consumers expect personalised 'buy now' price and benefit comparisons, or comparable product price promises. Misleading prices and purchase delays are no longer acceptable.

**Lesson 3:** Deliver a mobile first omni-channel buying experience with integrated access to online and offline support and advice, without the need to start again.

**Lesson 4:** Intermediaries can compete on price comparison sites as virtual insurers and can provide their own online service to compare and buy, or access online and offline support and advice.

**Lesson 5:** D2C distributors must control the end-to-end buying experience, from lead generation to activation, with no clicks to other sites. Price comparison sites have not yet achieved this as customers click to the insurer site to complete.

**Lesson 6:** Empower the business with comprehensive analytics to get close to the customer experience and use real data to test and learn.

**Lesson 7:** Use all permissible customer data to accelerate and simplify the buying journey. We already know a lot about our customers through other purchases, social media and from profiling other data sources.

*Martin Werth is chief executive of UnderwriteMe*

# Technology

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IAN MCKENNA

## How can platforms survive?

Seamless integration with other adviser software systems is crucial for platforms to succeed

So platforms are dead. Or are they? After 15 years of an almost unanimous view that platforms are the future, their obituaries have appeared overnight. The death of platforms is perhaps an exaggeration but they are in need of serious surgery. Most are in the intensive care unit and, indeed, some will not survive. It is time to explore what they need to do to have a valid role in the future.

Selecting the platforms that are best for their business and their clients is going to be one of the most important factors in determining an adviser's growth and profitability. This makes the FCA's recently restarted review of their due diligence even more timely.

Ultimately, platforms provide a technology function and this will be even more the case in the future. The best platform going forward may be one you do not even realise is there. Standalone platforms, where an adviser has to manually enter data and transactions with all the duplication of effort and risk of error that brings, will not be viable commercial partners going forward.

Adviser firms want to reduce the costs incurred in providing and executing advice and so platforms that can seamlessly move data between the key systems they use and execute the related transactions will become increasingly attractive.

There has been a significant shift in the epicentre of the adviser technology market. The practice management software through which an adviser manages their firm is no longer the most important system in the business. In a digital world, the system that matters most is the client portal. This technology is increasingly the public face of the adviser firm, available 24/7 when the adviser cannot be, not replacing them but complementing the relationship, making it a day-to-day part of clients' lives.

Platforms have fallen to third, even fourth, place in the hierarchy. They were always subordinated to practice management systems in any business that wished to optimise efficiency - and consequently the cost of advice - through the effective use of technology. They have grown through making it easier to manage multiple assets via a single infrastructure. Now they need to make this far easier to achieve in order to continue to deliver real value and enable the adviser to do far less to achieve more.

Every action within the software the adviser is using to interact with clients (which is increasingly the client portal, not just the practice management system) must be automatically transferred to the platform with any necessary transactions sanctioned from within the advisers' chosen system. Anything less than this will create unacceptable additional costs.

To reduce regulatory risk, having a consistent solution for risk profiling and portfolio construction is also important. It is only fair to recognise a significant number of smaller firms are not investing in sourcing independent tools, relying instead on platforms to deliver such capability. But this brings risks.

Unless they are going down the single platform route, or all selected platforms use the same tools, this means clients will have risk attitudes, capacity and even investment strategy assessed in different ways. Firms that go down this route may still see the traditional platform approach as appealing, although they will increasingly find this a false economy.

In practice, seamless integration can be a very expensive activity. It requires deep pockets and is likely to tip the platform playing field in favour of those who have the ability to not just build but also maintain extensive interaction. Advisers should not be misled into thinking this is easy to do. There is a huge variation between what different platforms actually deliver in this area.

However, for those looking to decide which adviser software to use, understanding which providers your preferred platforms have detailed integrations with will be a significant factor to consider.

The closer the integration between the different systems in an adviser business the greater the scope for reducing cost, improving efficiency and enhancing service. Three compelling reasons for making such factors a key part of any platform or software selection process.

*Ian McKenna is director of Finance & Technology Research Centre*

### GADGET OF THE FORTNIGHT

## Keyboard cuts out fiddly typing

Voice recognition has improved dramatically on mobile phones and tablets in recent years but there are sometimes situations where it is just not appropriate to dictate a reply or you do not have good enough signal for the software to work. Usually, however, those who like to use the technology do so as they find typing on phone keyboards way to fiddly.

The Zagg Keyboard offers a great solution to this. About the same width as an iPhone 5, just under twice the length and a few millimetres thicker, it is a Bluetooth, collapsible keyboard that can easily fit into a suit pocket and has a battery that claims two years life on a single charge.

It can switch between iOS and Android devices and has a neat shelf so it is suitable for pretty much any type of phone or tablet. The Bluetooth connection works really easily. Yes, this should always be the case but I frequently find niggles with devices like this.

I found the device cheaper on its website than on Amazon at £60 including free UK delivery.

# Smarter business

CLAIRE WILLIAMS

## Lessons on continuing duty of care

A recent court case highlights the importance of a robust advice process and clear contractual documentation

A recent judgement of the High Court (Worthing and another v Lloyds Bank plc [2015] EWHC 2836 (QB)) has provided some helpful guidance on continuing duties of care for financial advisers. The case involved a traditional client/adviser relationship, with initial investment advice being provided by the adviser followed by periodic reviews in subsequent years.

The clients involved alleged they had been provided with unsuitable investment advice at the outset. The date of the original advice was more than six years ago, outside the statutory limitation period, and so a claim simply that the advice had been negligent and the clients had suffered loss as a result was statute barred.

Instead, the clients argued the IFA was under a continuing duty (even in the absence of any subsequent reviews) to rectify the negligent advice they alleged had been provided at the outset and/or were negligent not to have rectified the advice in subsequent reviews that were in fact provided.

**Lesson one**

What is clear from the Worthing case is that a robust advice process will always be valuable. The judge dismissed the claim on the basis the original advice was in fact suitable. This was largely due to the adviser having kept full and contemporaneous records of the procedure followed and advice provided to the claimants. The records demonstrated a thoughtful and thorough process had been gone through to (a) assess the claimants' risk category (b) arrive at the recommendations made, and (c) ensure the claimants understood the advice provided.

### Will the FOS depart significantly from the approach taken by the court?

The issue of recording your advice process and how suitability is established is not new and the FCA recently emphasised again just how important it is to consider the client's capacity for loss. This case really drives that point home.

**Lesson two**

What is also clear from the case is that it is in advisers' interests to clearly set out the scope of their advice and duties in the client agreement or other contractual documentation between the firm and the client.

The judge in the Worthing case concluded the law did not support and the contractual documentation did not impose "a strict obligation, continuing from moment to moment, to correct any initial mistake in the original investment advice" (that is, in the absence of any agreed reviews).

It is important firms are clear in their documentation about what their duties are each time they advise a client, and indeed in between reviews. Firms should not unintentionally assume duties to their clients that apply "moment to moment" and should equally be clear about what is covered in subsequent reviews.

This does not prevent a client claiming for negligent advice that is within the six-year limitation period. It does, however, make it harder, if the contractual documentation is clear, for a claimant to try and circumvent the limitation period by claiming a continuing duty exists to correct the original negligent advice (provided outside the limitation period). This duty has been breached within the limitation period and is therefore not statute barred. If such a continuing duty did exist, it would ride roughshod over the principle of a six-year limitation period.

The more difficult question is what duties may apply where subsequent reviews involve an assessment by the adviser of the clients' objectives and attitude to risk, etc, and consideration of whether those things have changed. The important thing is to be clear about what you are and are not agreeing to do.

This case relates to a very common advice model but the key points - to have a robust process and clear contractual documentation - are relevant to all aspects of financial advice. The case may also come as a relief for advisers who may sometimes consider no matter what they do, a successful claim is always possible.

While the court's approach in Worthing is helpful it does not, of course, bind the Financial Ombudsman Service. The FOS does impose a similar six-year limitation period on claims (plus a three year "date of knowledge" period, but that was not relevant in this case) but it can decide cases on what it considers is "fair and reasonable" and is not bound by the law. On such a fundamental point, however, it will be interesting to see if the FOS does seek to depart significantly from the approach adopted by the court.

*Claire Williams is a solicitor at Foot Anstey*

## COMPLIANCE TIP OF THE WEEK

### Personal aspects of auto-enrolment

**Question:** I have been put in touch with a small local firm that employs a handful of staff. Are we able to promote personal pensions for auto-enrolment, given that many providers are cherrypicking?

**Answer:** Theoretically, the answer is yes but realistically the answer is often no. In order for any pension scheme to be defined as a qualifying workplace pension scheme there are certain criteria that have to be met, such as employer's contributions and being a tax registered scheme.

There also needs to be a defined default fund selected and the annual management charge of that fund must be no more than 0.75 per cent. There must be no barrier to joining and, finally, there must be certain types of agreements between the employer, job-holder and provider of the scheme. It is this final point where many personal pensions fall down. The majority of product providers simply do not offer or provide this agreement.

Using personal pensions for auto-enrolment can cause other issues to arise. A duplication of administration and multiple payments having to be made separately to different insurance companies, for many firms, proves to be just too onerous. Group personal pensions or master trust arrangements will satisfy all the auto-enrolment criteria and keep the employer fully compliant.

*Keeley Paddon is head of pensions technical at SimplyBiz*

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CAROLINE ESCOTT

# Playing catch-up

The advice community needs to ensure the FCA's guidance on pension freedoms keeps pace with the rapid rate of policy change

One of the many consultations published by the FCA over the last few weeks has been the 139 page-long CP15/30 entitled 'Pension Reforms - Proposed Changes To Our Rules and Guidance'. In it, the regulator outlines how it intends to amend the handbook to ensure rules keep up with the way the market is responding to what it calls "the most profound change in a generation".

It is, of course, important to ensure consumers are protected from scams and supported to take the decisions that will lead to a stable and secure income in retirement. This should include clear signposting to financial advice, where appropriate.

However, it is inconsistent with the philosophy of greater individual autonomy that underlies pension freedoms to place so many caveats and potential restrictions on consumers choosing to take advantage of the reforms.

The assumption underlying some of the later questions in CP15/30 on the decision whether or not to transfer from a pension with safeguarded benefits is that, in the vast majority of cases, doing so will not be in the client's "best interests".

Yet it is arguable pension freedoms changed the definition of "best interests" for many people overnight.

It seems inappropriate to second-guess consumers that have been given greater choice to determine what is best for them. The FCA should make clear there is no assumption in its or the Government's mind as to whether or not a transfer from a scheme with safeguarded benefits is a good or bad thing.

For those people with a pot of £30,000 or above who are required to take advice, the advice given should simply be suitable to the individual's needs, objectives and circumstances.

Another key issue in the paper that advisers should be aware of is transacting insistent client business. Although the FCA has published a factsheet on the topic, CP15/30 notes quite rightly that "advisers are still uneasy about dealing with insistent clients", particularly in relation to the availability of professional indemnity insurance and the uncertainty surrounding how the Financial Ombudsman Service will react further down the track.

Members have told me of a number of ways in which they are currently handling this delicate area. These include getting not only the client but also the client's beneficiary to sign the appropriate papers and requiring an email to be sent from the client confirming "in their own words" (in line with FCA recommended best practice) that they understand the implications of going against the advice given.

However, there are other advisers who have told me they will not get involved in pension transfers under the new freedoms without clarity from the FCA and FOS about where liability assigns. This is something that may well only become clear to all once the first complaints to the ombudsman appear.

In the issues it examines, CP15/30 seems to accurately reflect the majority of those concerns members have brought to us regarding the implications of changes to the pension landscape both for their businesses and the retirement income market.

It is incumbent on the industry now to take this opportunity to feed in their views and ensure FCA guidance keeps pace with the rapid rate of policy change.

*Caroline Escott is senior policy adviser at Apfa*


BUSINESS TIPS

DAVID SHELTON

# Be clear on job descriptions

A job description should never exceed one side of paper. The reason for this is to concentrate on what is really important, making sure you have a clear description of the job purpose, content and the type of person you are looking for. The specific benefits are:

- You concentrate on what is important
- You have to think hard about the objective of the job
- There is less room for misinterpretation
- It avoids bureaucracy
- It provides a straightforward agenda for the performance review meeting
- It is a clear brief for recruitment agencies.

The template normally has four sections:

- Purpose of job: one single objective
- Main responsibilities: ideally no more than 10 and based on actions and outputs
- Person specification: skills, experience and knowledge
- Reporting lines.

Clearly these documents are important in the recruitment process but they also provide the foundation for performance management.

They are the agenda for the meeting and you should focus on the accountabilities and any development projects that the individual could be involved in.

*David Shelton is a consultant at Stoke Bishop Associates*

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# Technical area

TONY WICKENDEN

PENSIONS

## Rules on nominations

The role of scheme administrators has been restricted in beneficiaries' flexi-access drawdown


Before the pension freedoms were introduced in April, death benefits could be paid in the form of a lump sum or as a dependant's "pension", either as an annuity, a scheme pension or as dependents' drawdown. I looked at this in some detail last week.

But that was then. The pension freedoms legislation changed the position and now, on the death of a member, death benefits can be paid in the form of a lump sum payment, scheme pension, flexi-access drawdown or an annuity. The big change is that the recipients of these last two (income-based) death benefits are not limited to dependants.

The scheme administrator will, broadly speaking, retain discretion over who should receive such benefits and, in most cases, the form the benefits should take. This is necessary to retain the inheritance tax efficiency of the death benefits. It should not be possible for the member to retain the freedom to dispose of death benefits if those benefits are to remain outside their estate for IHT purposes. However, beneficiaries' flexi-access drawdown can only be paid to those "nominated by the member". While such a "member nomination" can also be made by the scheme administrator, it is in this situation that restrictions apply.

To understand the position it is necessary to consider Part 1 of Schedule 2 Taxation of Pensions Act 2014. This has amended paragraph 27A of Schedule 28 of Finance Act 2004, so that is now reads:

"In relation to any particular benefits under an arrangement, no individual nominated by the scheme administrator counts as a nominee of the member at any time when there is (a) a dependant of the member, or (b) an individual, or charity, nominated by the member in relation to the benefits."

So the scheme administrator cannot designate death benefits to beneficiaries' flexi-access draw-down for the benefit of any nominee where a dependant of the member exists and/or one or more nominees have been named by the member.

What this means is that:

- If the member dies without having made a nomination but leaving a dependant, the scheme administrator can nominate that dependant (but nobody else) to receive beneficiaries' flexi-access drawdown benefits
- If the member dies without having made a nomination of a nominee(s) and there are no dependants, the scheme administrator can nominate a nominee(s) to receive beneficiaries' flexi-access drawdown benefits
- Regardless of any member nomination or the existence of a dependant, lump sum death benefits can be paid by the scheme administrator to anyone under the discretionary disposal provisions.

So, where a scheme administrator cannot make a member nomination for the receipt of beneficiaries' flexi-access drawdown themselves (that is, because a dependant exists or the scheme member has already nominated a nominee), they can still effectively ignore the member nomination and decide to pay lump-sum benefits to any one or more of the discretionary class of beneficiaries specified in the scheme rules. This may be done, for example, where the family of the deceased member agrees benefits should not be paid to the member-specified nominee or a dependant but to someone else who has not been specified as a nominee by the deceased member.

The tax position on any death benefits will depend on the age at which the member died (75 or over, or under 75) and whether the death benefits are paid out or designated broadly within two years of the date of death. Beneficiaries' flexi-access drawdown can be paid to nominees even if there are surviving dependants of the deceased but only if the nomination was made by the member.

A dependant, nominee or successor is unable to make a charity nomination in cases where a valid charity has been nominated by the member. If that member-nominated charity no longer exists, then a new charity nomination can then be made by a beneficiary if they so desire.

There is also a similar process for nominations on the death of dependants, nominees or successors. However, there is then less likely to be a surviving dependant of the member.

Next week I will look at how this works in practice and what advisers are doing to cope with what appears, at least at first sight, to be the over prescriptive and difficult-to-justify nomination and beneficiaries' flexi-access drawdown rules.

*Tony Wickenden is joint managing director of Technical Connection*

RACHAEL GRIFFIN

FINANCES

# The power of attorney process

Our ageing society means it is important to understand the ins and outs of power of attorney legislation

The Office for National Statistics recently released data showing a combination of net migration and longer life expectancy means the UK population is expected to rise to almost 75 million by 2039, with more than one in 12 people aged over 80.

The ageing society has been a concern for policymakers for some time but conscientious clients will also be thinking about building a plan fit to stand the test of time.

The ONS' "how long will my pension need to last?" calculator shows a 55-year-old male today can expect to live for another 31 years on average. They have a 10 per cent chance of reaching 100 years of age. Meanwhile, a woman age 55 today can expect to get close to her 90th birthday and has a 10 per cent chance of reaching age 103.

Alongside a sustainable retirement income strategy and generational wealth planning, clients faced with these statistics may also want to prepare for the possibility they could become less able to make important choices about their finances and personal welfare as they grow older.

If this is a discussion you are having with clients, it is useful to be aware of the ins and outs of lasting power of attorney legislation, which allows individuals to manage their approach to handing control to friends, family or a professional attorney.

Lasting power of attorney was introduced in England and Wales in October 2007, building upon and replacing the previous Enduring Power of Attorney Act 1985.

The legal document allows an individual to appoint an attorney to make certain decisions on their behalf in specific circumstances and gives them the option to specify when they wish to grant that control.

There are two different types of LPA: property and affairs, and personal welfare.

### Property and affairs

The property and affairs LPA allows an individual to elect someone to take over decisions about personal spending as well as how property and financial affairs are managed. This type of power of attorney can apply while the client is still mentally capable, unless the power is restricted in some way.

For example, in some cases, clients may still be able to make decisions themselves but find it easier to delegate certain powers. Perhaps they are considering spending long periods of time out of the country and prefer not to discuss financial matters over the phone or via email. The main difference between this type of LPA and a general power is the fact it remains valid even if the individual becomes mentally incapable.

Alternatively, if the client chooses, it can be stipulated the LPA will not come into effect until they lack mental capacity. The document must be drafted to specify this.

### Personal welfare

A personal welfare LPA, meanwhile, allows the attorney to make decisions about an individual's healthcare and welfare. These decisions include refusing or consenting to medical treatment on the individual's behalf and deciding where they live. These decisions can only be taken when the individual lacks capacity to make them themselves.

It is possible under each LPA to appoint different people to make those decisions. Some clients may prefer to have a professional fiduciary to make financial arrangements but leave responsibility for their personal welfare to someone else.

In order for each type of LPA to be valid, it must be registered with the Office of Public Guardian and there are certain formalities to follow. Applying for an LPA after someone becomes mentally incapacitated can be time-consuming and stressful. Planning ahead can help avoid distress and give peace of mind.

In summary, the steps involve ensuring that before execution of the document the individual has not been placed under undue influence and they understand the powers they are giving to their attorney. The second stage is registration of the LPA, which will not be valid until this step has been completed. The current charge for registration is £110 per LPA and they take between eight and 10 weeks to register. This includes a four-week waiting period required by law to enable those involved to raise any concerns.

According to the Department of Health, the number of people living with dementia in the UK is expected to reach 1.6 million by 2040. Helping clients to plan ahead can mean both they and their family avoid unnecessary stress, expense and delay, and gives reassurance they have granted decision-making powers to those they trust.

*Rachael Griffin is financial planning expert at Old Mutual Wealth*

## THE CPD CENTRE QUIZ

To help you to keep up with the fundamentals of tax, retirement and financial planning, try these three questions.

**1** For the past nine years, Cliff has been receiving benefits from his income protection policy, which was set up to run to age 65. He has just been passed as fit by his GP and now plans to retire. What will happen to his income protection benefits?

**A)** They will cease because he is no longer incapacitated

**B)** They will cease because he does not plan to work anymore

**C)** They will continue until the end of his current policy year

**D)** They will continue to age 65

**2** Ben is an additional rate taxpayer and receives benefit from his personal income protection policy of £12,000 a month. What is the most likely tax treatment?

**A)** Benefits are exempt from personal tax

**B)** Benefits are paid gross but are taxable at 45 per cent as he is an additional rate taxpayer

**C)** Benefits are paid gross but will be taxed in full as earned income as his benefit exceeds the maximum level for tax exempt benefit

**D)** Benefits are paid net of 20 per cent but further tax may be due if his total income from all sources when added to his benefit exceeds £150,000

**3** Jean has been receiving attendance allowance at the higher rate. She has just been admitted to a care home, whose fees are being funded by her local authority. What happens now to her attendance allowance?

**A)** It continues as before

**B)** It now drops to the lower rate

**C)** It continues but is paid direct to her local authority

**D)** It ceases

Answers 1: A; 2: A; 3: D

Questions supplied by CPD Centre

CPD CENTRE

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## Is it time to upgrade your CMS?

*if* you have documents in more than one place

*if* you are entering data more than once

*if* you're spending too much time on admin

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## How do you know it's time to upgrade your CMS?

*by Ann Dempster, Plum Software Managing Director*

Change is never easy, even when it's good for you. It's much easier to keep on doing what you've always done in your business. But what if you are working harder than you have to? What if you could create a more streamlined and efficient business just by upgrading your Client Management Software (CMS)?

Here are three simple questions to help you decide if it's time.

### Is your business and client information in more than one place?

Do you store documents and data in folders or on a system other than your CMS?

A business-integrated CMS that can be indexed by details such as clients, policies, valuations, people, dates, types of policies, associated remuneration, etc. will ensure you always have the information you need when you need it. Further, reporting is a breeze when you link the required information to the type of report, including FCA compliance and Gabriel reports.

A proper CMS will allow you to scan, store, index, link, search on, and share all your business information in an unlimited number of ways, from any type of device. With everything in one place you never have to hunt around for relevant documents again.

### Are you repeating yourself?

Are you conducting "business by spreadsheet" to work out what data you need from your underlying systems? Do you find yourself recreating the same letters and documents over and over?

If you have to have data to cross-match the data you already have in order to then enter it into your system (i.e. with new business registers), you need a new CMS. Your CMS should be able to organise your business so you never have to enter the same thing twice – enter once and then your CMS can work it out for you. Create and store letter templates with automatic mail merge, create standard reports that automatically update data, and set it up to automatically save the content in a diary or other centralised location.

### Is it not as much fun as it used to be?

Are you spending too much time on admin and not enough time with clients? Are you manually entering transactions because your software doesn't have all the electronic valuations you need? Are you unable to delegate because your systems aren't in place or don't provide adequate oversight?

A good CMS lets you create workflows, run events and campaigns, assign and monitor tasks, and maintain accountability throughout your business. It has (or can get) all the automated valuations you need to keep clients' portfolios up to date. It will lighten your admin burden so you can spend more time doing things that really add value, like spending time with your clients.

Is it time?

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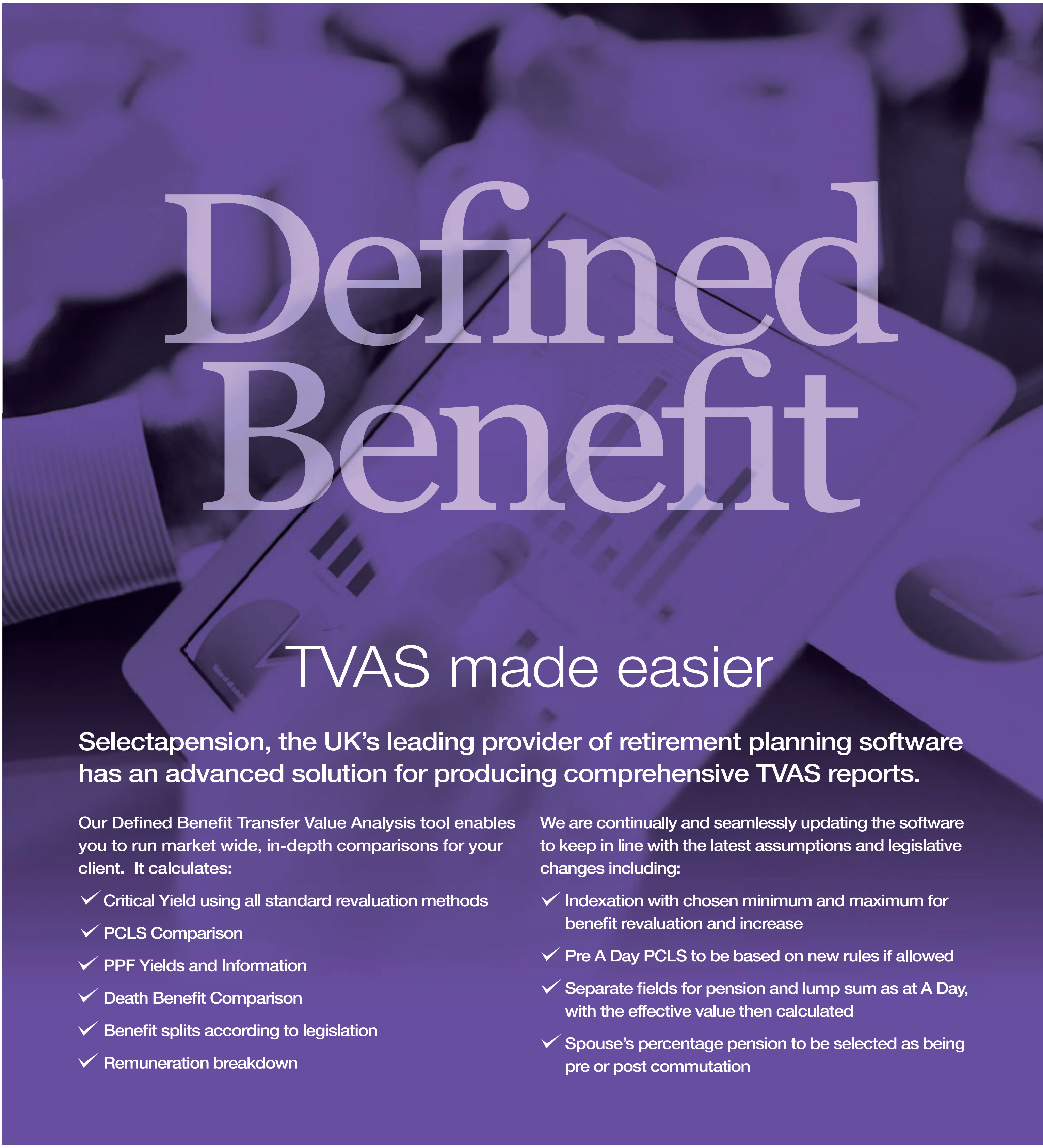
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✓ Death Benefit Comparison
✓ Benefit splits according to legislation
✓ Remuneration breakdown
We are continually and seamlessly updating the software to keep in line with the latest assumptions and legislative changes including:
✓ Indexation with chosen minimum and maximum for benefit revaluation and increase
✓ Pre A Day PCLS to be based on new rules if allowed
✓ Separate fields for pension and lump sum as at A Day, with the effective value then calculated
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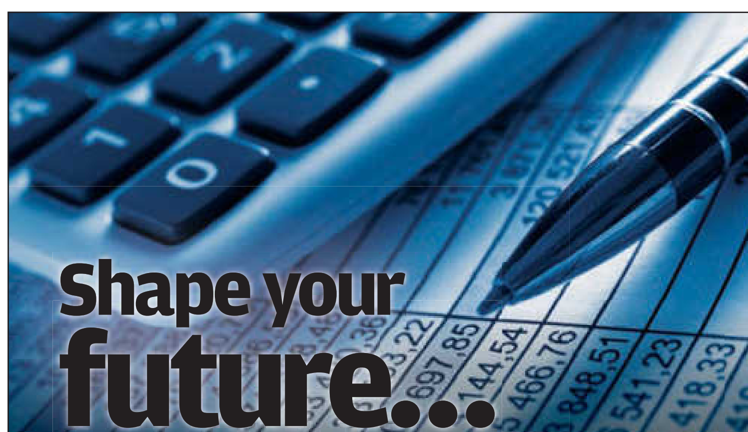

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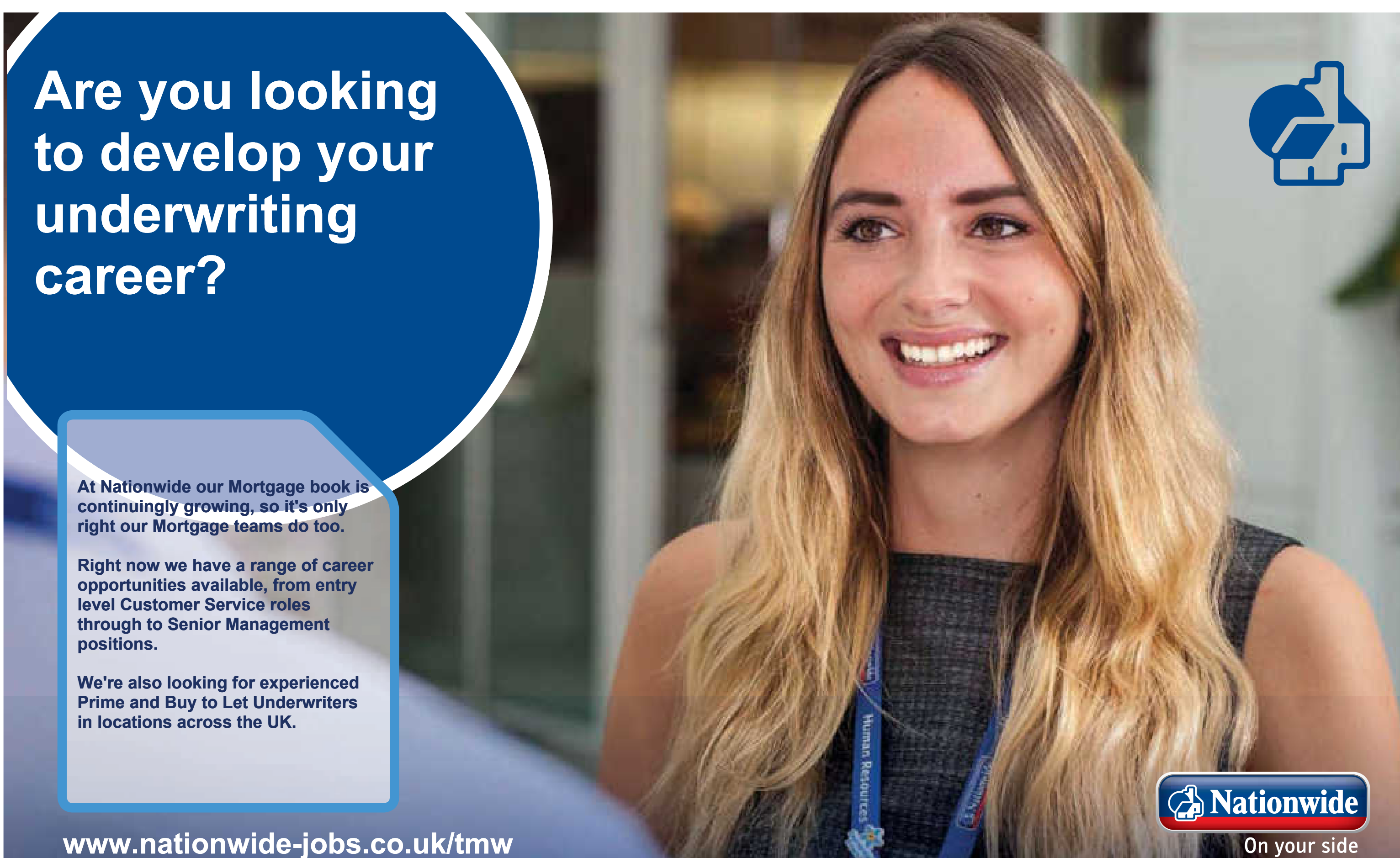

# The Wells Street Journal

A weekly account of the curious goings-on in the world of financial services

## Huss's banger debut mashed

Q: What do sausages, The Apprentice and the bitter taste of rejection have in common? A: All have featured in Liontrust multi-asset wizard John Husselbee's brush with TV fame.

Some years ago the investment veteran lucked upon a hapless Apprentice team selling sausages in Leadenhall market. Spying the ideal chance to launch a long dreamed-of television career, Husselbee jumped in to buy some gourmet sausages.

Bartering with the Apprentice stars he appeared such a TV natural that the producer asked him to recreate the scene for the cameras.

Fast forward a few months to when six million viewers tuned in for his broadcast debut and Husselbee gathered his nearest and dearest for a party at his home to sample gourmet bangers and savour his moment in the limelight.

A crestfallen Husselbee was left red-faced when it became clear his starring performance had been left on the cutting room floor.

*WSJ* understands The Huss has held a vendetta against Lord Sugar ever since, even rejecting the chance to replace Apprentice legend Nick Hewer as Sugar's right-hand man.

## Wall protects Godfrey mystery

Guests eager to catch up on the gossip about the ousting of Investment Association chief executive Daniel Godfrey faced a carefully constructed public relations wall at the embattled trade body's annual awards dinner in London last week.

If they thought association staff were reciting a script on this sensitive issue, they were right.

Despite IA chairwoman Helena Morrissey being refreshingly open about the recent events, *WSJ* found the communications team had expertly trained their colleagues in how to deliver the silent treatment.

One suggestion given to staff in a memo to bat away cheeky questions on Godfrey's exit was to reply "I'm afraid that's above my pay grade".

*WSJ* is waiting to see whether such stock answers will be used when the delicate topics of remuneration and fee transparency raise their head again.

## Separated at birth

**Mark Kermode, BBC film critic**

**Iain Anderson, Cicero**

*Have you a suggestion for "Separated at birth"? Please send it to WSJ via Twitter @MM_WSJ.*

## OUT OF CONTEXT


### "It's like a shed"

EY's Malcolm Kerr is less than complimentary about MM towers.

### "Are you saying HMRC is staffed by large cohorts of Eeyores who get on with their job quite well even while complaining about it bitterly?"

Treasury committee chair Andrew Tyrie questions the staff morale at HM Revenue & Customs.

### "People want a Workie for Christmas"

Pensions minister Ros Altmann is adamant the Government's new auto-enrolment campaign is a hit.

### "I spent 18 months trying to make defined ambition a reality"

Association of Consulting Actuaries chairman David Fairs is not at all bitter the Government has kicked the defined ambition project into the very long grass.

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